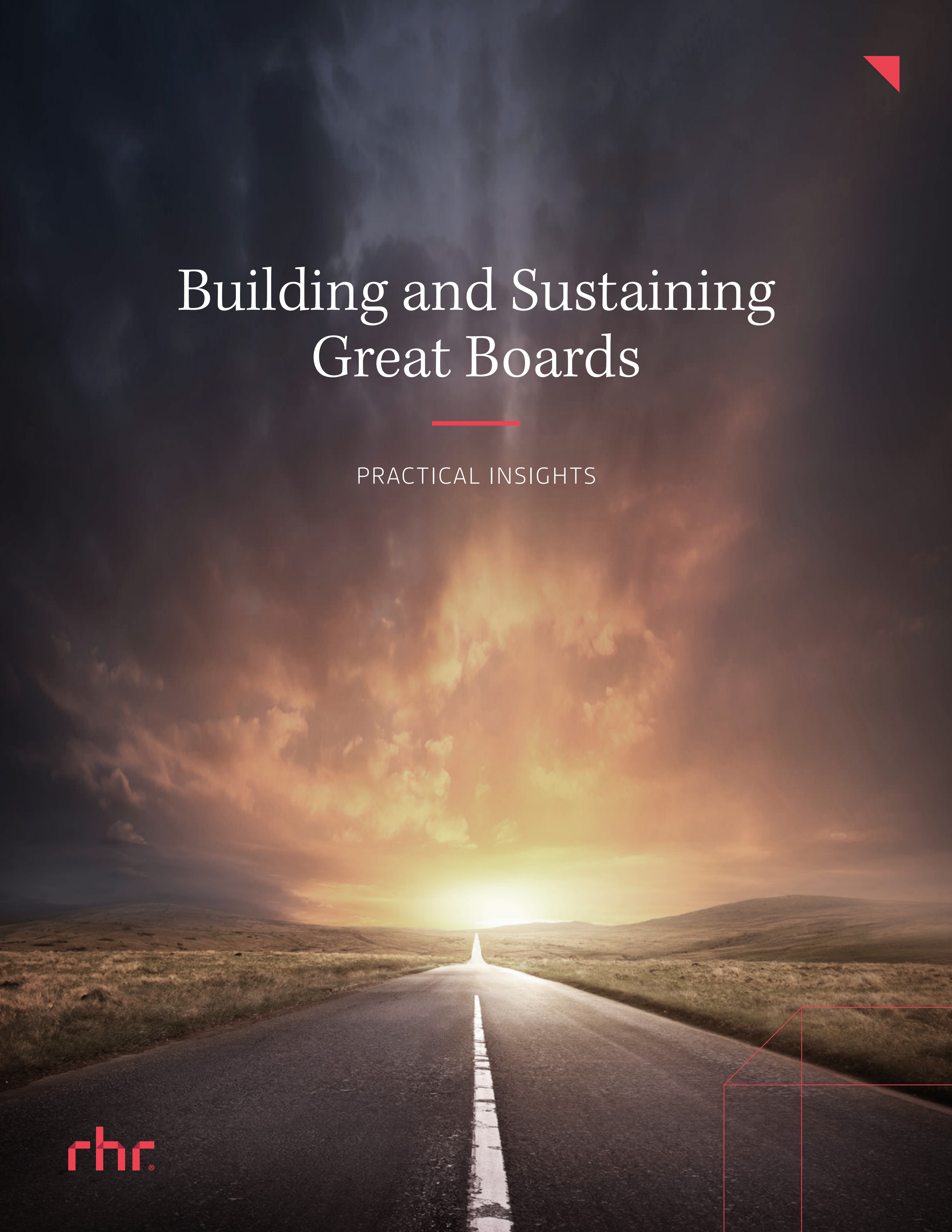

Building and Sustaining Great Boards

PRACTICAL INSIGHTS

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Introduction

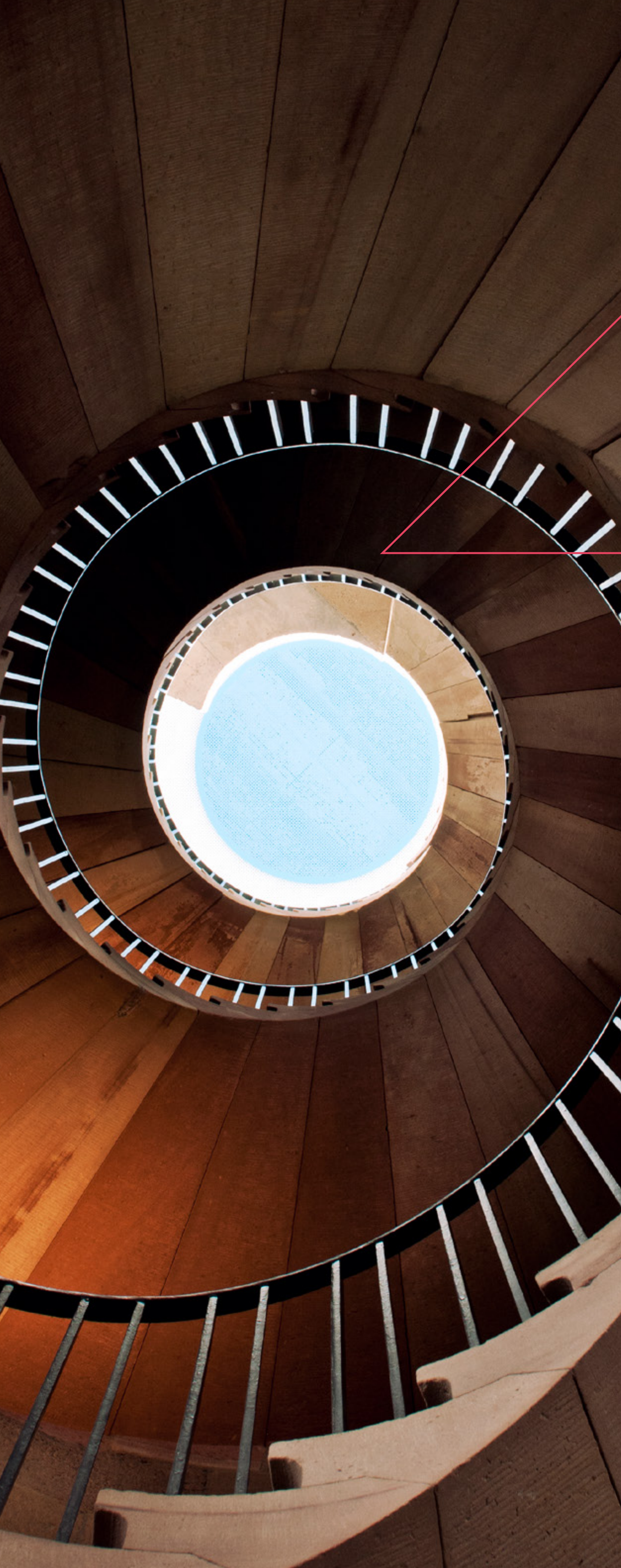
At RHR International, we believe that board service and leadership are noble endeavors. Done well, they are a force for good in the world and positively impact the lives and fortunes of millions of people. We exist to help unlock that potential. For more than 75 years, RHR has worked with the boards, CEOs, and C-suite executives of several thousand organizations, leveraging the art and science of psychology grounded within the business context to help maximize their effectiveness. We have evolved our insights both through research and experience, balancing the pragmatic with the more nuanced.

This book is a compilation of blogs and articles we have written on high-performing boards. Each chapter focuses on a different aspect:

- Building a great board
- Maximizing board functioning
- The partnership between a board and senior management
- Board renewal
- CEO succession

These chapters are not intended to be comprehensive treatments of these areas, and there are other topics regarding board governance that we do not address. Our intent is to offer pragmatic, relevant suggestions and observations that help directors deliver both excellent governance and the evolving additional lift that organizations need from their boards. We hope you find these articles stimulating and that they contribute to the effectiveness of the boards on which you serve.

Deborah Rubin, PsyD, and Paul Winum, PhD
Co-Heads of Board & CEO Services at
RHR International LLP



CHAPTER ONE

Building a Great Board

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Introduction

The specific challenges boards face have been evolving, yet the core ingredients for building a great board have remained consistent and essential. Although RHR wrote the following articles over a number of years, it is striking how relevant they remain today, especially for boards navigating the current tumultuous business and social landscape. One reason these insights have not experienced a short half-life has been the deliberate focus on identifying key actions that build and sustain great boards. As demands on boards continue to increase, these aspects are moving from best practices to ones that are becoming less and less optional.

Although the tone and voice shift across these articles, one constant is the call for boards to provide both good governance and an additional “lift” or value-add that enhances the organization’s ability to excel.

The Winning Formula® Profile for a Great Board

This article is an excellent place to start, for it outlines the building blocks that collectively create the foundation of a highly effective board. "The Winning Formula® Profile for a Great Board" is based on surveys and interviews with directors who have served on more than 120 boards.

Paul Winum

Senior Partner, Practice Leader Co-Head,
Board & CEO Services

The building blocks of a great board are measurable and replicable; they also require regular attention and reinforcement.

A great board is a team of exceptionally competent leaders committed to the long-term mission of the business. Their edge over typical boards is their ability to anticipate the future—to seize emerging opportunities or craft prudent defensive actions to protect the enterprise. Ultimately, great boards win in the marketplace.

Over the past several years, the scrutiny of corporate governance has continued to intensify. Corporate directors are under increasing pressure to provide effective oversight and strategic contribution to the companies they govern.

We at RHR have noticed in the last several years that this pressure, both in Europe and the United States, is shifting away from a board's focus on statutory and regulatory compliance to more fundamental matters of board competency, culture, and strategic focus—process and group dynamics matters.

Coincidental with this shift, many of RHR's board-level clients have asked for support in fulfilling their responsibilities for upgrading director competency and continuously improving board governance. We are experiencing increasing demand for professional service in three key areas of board impact: first, the board's annual self-evaluation; second, the process of CEO succession planning; and third, CEO performance management and development.

Given these trends, the leadership team at RHR decided to undertake a research program to develop and disseminate insights to the governance community about the components of a great board. We used the following gateway questions:

- What are the building blocks of a great board?
- What differential value does a great board contribute to the company it directs compared to a typical board?
- How does a great board function differently than a typical board?

What We Did

To answer these questions, we began a three-part research program that included:

1. A 10-item questionnaire distributed in collaboration with New York Stock Exchange parenthetical (NYSE) Governance Services that was completed by 291 directors who serve on boards of companies with annual revenues ranging from $500 million to $40 billion, including a number of Fortune 50 multinational companies.[1]
2. Interviews with 45 directors who collectively serve on 125 boards with revenues ranging from midcap to Fortune 50 companies to seek their experiences and views on what makes a board great.
3. Building and distributing a 55-item board effectiveness survey that enables boards to benchmark themselves against other boards in seven key areas of governance.[2]

The Definition of a Great Board

A great board is a team of exceptionally competent leaders committed to the long-term mission of the business. These leaders understand their singular accountability is pursuing their shareholders' best

Within great boards, there is clear understanding and alignment of purpose, priority, and resource allocation.

[1]The results of the NYSE Governance Services survey were distributed in a white paper accompanying the fall 2014 issue of *Corporate Board Member* magazine. 2 The analysis of the output of this part of the research program is still under way.

interests while considering the interests of other stakeholders. Within great boards, there is clear understanding and alignment of purpose, priority, and resource allocation. An uncompromising attention to ethical values prevails at the board level, along with unwavering insistence that these values cascade throughout the operating organization. Directors are astute reads of marketplace signals; they are rarely surprised. Their edge over typical boards is their ability to anticipate the future—to seize emerging opportunities or craft prudent defensive actions to protect the enterprise. Great boards are collections of talented leaders with diverse perspectives that add value. Directors are superb talent scouts and are able talent developers. Great boards find ways to play well together in deliberation and quality of decision-making. Ultimately, great boards win in the marketplace.

To bring the definition more to life, several quotes from our interviews provide interesting context and insightful color to the description of a great board:

Attention to shareholder interests. Shareholders' interests are always front and center; the egos, personal agendas, and biases are put away.

Belief in the mission. Directors must believe in the mission and thoroughly understand the business model.

Chemistry among directors. Directors are mutually supportive collaborators, beyond being just friends. These are teams that have meaningful interactions both inside and outside the boardroom.

Constructive relationships with management. Great boards have a sound read of the capability and biases of the chief executive officer and senior management. Great boards provide leadership and guidance of the what; they don't micromanage the how. Great boards know that the bright line separating governance and operating matters... and when and how to cross that line when necessary.

Engagement. These are teams that put in emotional energy—not just time.

In-depth business expertise. Great boards are populated with directors who have the capability and instinct to think ahead of the business. Great leaders are skilled in aligning values, tapping diverse perspectives and experience, and expecting a lot. And they're hell-bent to win in the marketplace.

Asking the right questions. Great boards are curious. Great directors ask great questions—questions that are targeted; questions that go deeper, into different space; and, importantly, questions that teach a different type of thinking. **Great boards?** It boils down to competence, confidence, character, and chemistry.

The Building Blocks of a Great Board

Our research brought focus to the building blocks for a great board. The net effect when these building blocks are in place is a board that adds great value in guiding and supporting the management of the enterprise to effectively choose and execute strategies that enable the enterprise to fulfill its mission and compete successfully against competitors in the marketplace, in both the short term and a long-term sustainable capability.

It is important to note that these building blocks are measurable and replicable; they also require regular attention and

reinforcement. Our survey puts a spotlight on the importance of team learning for the creation and maintenance of a great board.

Clear and Aligned Purpose
Many of the directors we interviewed talked about how critical it is for everyone on a board to have a shared agenda and for that agenda to supersede the agendas of individual board members. Some directors went further and emphasized the importance of financial alignment such that directors' interests and efforts are in line with shareholders' interests. Complexity and the resulting challenges come when directors represent different constituents and agendas with interests, timelines, and values that diverge.

Diverse, Engaged, and Experienced Directors
Once there is a clear and explicit charter for the board, the second core foundational element for a great board is the board composition. The board members we interviewed outlined several criteria for selecting the right group of directors to compose a great board. They told us that directors of great boards need to:

- Have industry and/or functional experience and expertise that directly maps to the business and strategy of the enterprise they direct.
- Possess a strong service orientation and can subordinate their egos to the service mission.
- Bring diverse backgrounds and perspectives that enrich boardroom dialogue, analysis, insights, and problem-solving.
- Demonstrate emotional intelligence in their interactions with other board members and management.
- Collaborate well with others.

Board Leadership
Great boards don't materialize without great board leadership. Leadership is the essential catalyst for the other building blocks of great boards. Our research uncovered eight essential roles a board leader must play on a great board. These "Great 8" roles are described below, along with anecdotal comments from our director interviews about these roles and their impact on board competency and contribution to the business.

1. The Orchestra Conductor
The chair is the lead facilitator. A great chair tees up the right issues, and these are resolved with thorough deliberation and decision-making. They don't have to necessarily have all the answers, but they certainly ask the questions and draw out the best thinking. They bring the best ideas out of every director and work with directors to mold the solution to each of the problems that arise. They invite open discussion and debate but walk the line to make sure there's action. They set the right agenda and drive constructive deliberation through to timely decisions. They focus on the right topics and make sure dialogue stays at the right level. They bring focus to the right issues at the right time with the right degree of intensity. They know where to poke and when to stop.

2. The Galvanizer
Board leadership attracts great talent and enlists them in a common pursuit of special goals and achievements. They make sure people are engaged and inspired. They make sure they're aligned on key priorities and know where they want to go. They broker consensus amid dissension. Chairs work the room well; they are contagiously confident.

3. The Culture Steward
Great leadership creates an environment where all directors are fully engaged and involved—they get every director "under the tent." Positive conflict is encouraged. Everyone has a voice. They're intentional about setting the tone and creating the culture that supports strategy and what they must accomplish. They create a cul-

ture that promotes open discussion, the ability for everyone to be heard, service, and role clarity. They have genuine respect for people with different opinions.

4. The Visionary

Great leadership always has their eyes and aspirations on the future—a future they set or a future they must react to. They set the framework within which other directors are going to develop strategy and direction for the business. They supervise the vision and strategy for the company. This person is a critical thinker who is consistent in their approach to decision-making and values.

5. The Operator

Great leaders ensure the day-to-day matters are handled—no surprises. Governance. Reporting. Compliance. They interact with the market and shareholders. They put in behind-the-scenes work to make sure directors are prepared for meetings. They set the agenda for board meetings. They have proper information flow and make sure people are properly educated on issues.

They make sure all issues get on the table, and they have a governance process that enables and supports the management team but also holds them very much accountable. This person is careful and skilled in not owning problems but overseeing solutions. They are masters of the tactical pieces of the role.

6. The Talent Manager

This person knows the skills, experiences, and perspectives needed from other board members as well as from the senior team. They recruit and ensure proper skillsets are on the board and make sure the right people are in the right place (e.g., committee membership). They encourage growth on the part of the board members and get them to stretch their minds. They manage turnover and act as a great coach. They are engaged in evaluation and feedback (both individually and collectively).

7. The Advisor

Great board leaders are effective coaches—they listen, shape, and guide the CEO in very personal ways. These are personal relationships that must work for a board to be great. This person is a close partner and sounding board for the CEO and their team. They have the CEO's trust and respect, as well as regular interaction. They support the CEO and act as a buffer between the board and the CEO. This person helps the CEO understand what is going on with the board and vice versa. They provide feedback but do not interfere or micromanage. They provide invaluable advice and counsel to the CEO.

8. The Ambassador

Great board leaders have strong connections in the external world—customers, competitors, suppliers, regulators, politicians, and other key stakeholders. They can access influence from the external world. They are highly communicative and ensure the right communication flow among members. They act as a direct line of communication outside of board meetings and with each of the board members.

Culture

Culture represents the prevailing norms, practices, and often the unwritten rules for how any organization does business: "It's the way we do things around here." Boards have cultures that may be dysfunctional because they exert too strong an influence over the operating organization, are too weak, or are stale and out-of-date. These cultures impede fresh thinking and constructive debate; they cause "drag" on the business. Great boards are characterized by norms and practices that display genuine interest about the business and foster engagement, innovation, and performance excellence—great board cultures provide "lift" to the business.

In our research, culture was viewed as a key determinant of a great board. Its importance was repeated throughout our interviews and responses from the 291 respondents to the Great Boards questionnaire as a crucial differentiator between great boards and typical ones. The top two factors that directors most often cited as contributors to the making of a great board were the quality of boardroom dialogue and debate (88%) and the ability to ask the tough questions of management (77%). The two top fac-

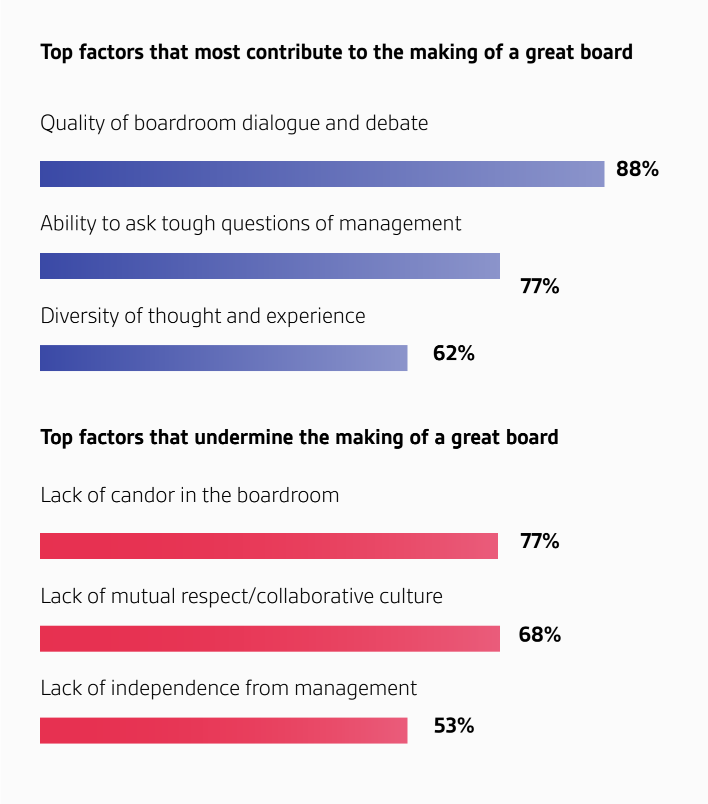


Figure 1

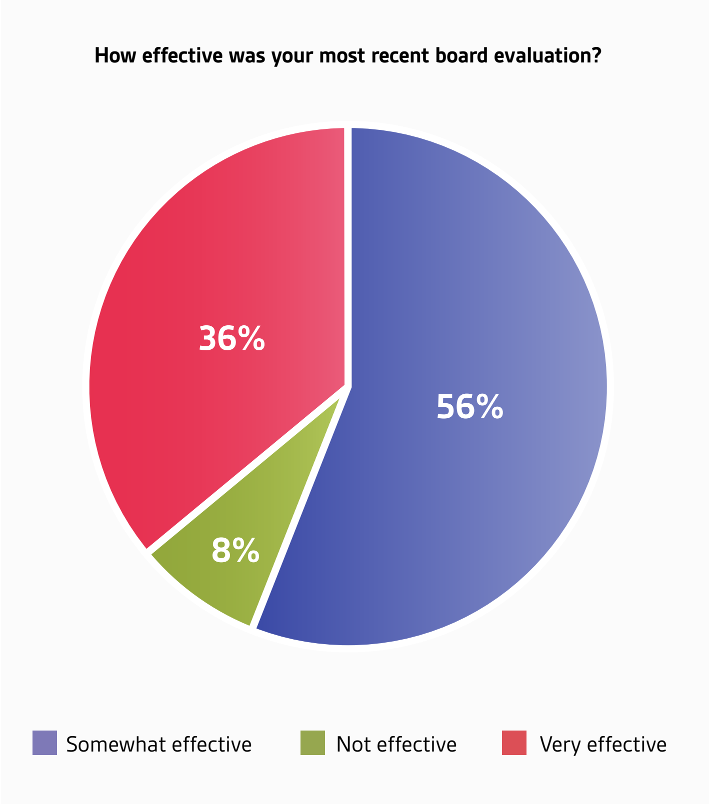


Figure 2

tors they cited as undermining board effectiveness were lack of candor in the boardroom (77%) and lack of mutual respect and a collaborative culture (68%). Many directors commented on the importance of healthy conflict and tension in the boardroom to fully explore issues from different perspectives and challenge the status quo.

Among other things, a board of directors is a group of people subject to the same dynamics that social psychologists have found operative in any small group—forces of social conformity, groupthink, the potential for diffusion of responsibility, etc. Board members are often prominent members of an industry sector of the business community, and directors have conscious and often unconscious motivations to maintain collegial relationships with one another and the board chair so as not to rock the boat.

A great board chair or lead director must skillfully manage these group dynamics in a way that propels the whole board to be greater than the sum of its parts and to minimize the adverse consequences of undermining small group dynamics.

A notable theme related to board culture related to board size. Many directors recommended a smaller board size (fewer than 10 directors) to enable more candid and less formalized interactions in the boardroom.

Best Practices

With the first four foundational building blocks in place—shared purpose, the right composition, great leadership, and a culture that is simultaneously collegial and challenging—a board can embrace best practices in core areas of responsibility: strategic oversight, its fiduciary and risk management, CEO performance and succession, as well as its own ongoing continuous improvement and renewal. Great boards have sound processes to manage each of these areas. In our interviews with directors, themes for how great boards do so were as follows:

Strategic oversight

A great board possesses great business and industry acumen such that it is not only well versed in the current state of the enterprise and competitive landscape, but it also devotes attention and resources to the midterm and balances attention to short-term, midrange, and longer-term direction and strategy.

Fiduciary duty and risk management

Unlike boards of many financial services companies in the first decade of the 2000s, great boards have a thorough appreciation of revenue sources and threats and insist on disciplined processes to manage financial, environmental, political, regulatory, reputational, and cyber threats to the business.

CEO performance and succession

The selection and deselection of the CEO is perhaps a board's most important responsibility, and great boards invest continuous attention and diligence to this process. Although average boards often don't actively manage the CEO, great boards and great board chairs and/or lead directors establish an open and trusting partnership with the CEO in setting explicit expectations and supporting the execution of them. Great boards commit to a disciplined rhythm of talent development for all mission-critical roles, with particular attention to the candidate pipeline for the CEO position.

Board renewal

The competitive landscape in business these days compels a continuous improvement ethic for any enterprise to be successful. That holds true for boards as well, and the best boards devote time and attention to regular reviews of how they are functioning. Substantive full board evaluations, as well as actionable feedback to each director on at least an annual basis, is a best, if relatively uncommon, practice. Only 36% of directors in the NYSE survey reported that their most recent board evaluation process was very effective. In the interviews we conducted with directors, most indicated that director feedback and removal was a difficult and awkward task but said that the best board chairs courageously took on that task when needed. Mandatory retirement ages were the most commonly cited way most boards use for director replacement. Comments were also offered that the tradition of board members serving terms in excess of 10 years should be replaced with shorter tenures wherein directors move in and out of the boardroom more frequently to ensure relevant director-level expertise is always abundant.

RHR helps boards be great

Today, boards face different and more challenging demands than they have historically faced. Board leadership is more complex and strategically focused. Directors are pushed to rapidly learn the business, fit within the board team, contribute quickly, and stay current. Expectations for availability and business expertise are increasing. Board service is clearly a real job, not a part-time avocation. Many directors look for a new roadmap for their personal success in board service. Full boards increasingly reach out for assistance.

The imperative and opportunity have never been higher for a board of directors to add value in support of an enterprise's survival and success. The partnership among board members and between the board and CEO must be strong and collaborative, yet mutually challenging to leverage the full impact of a group of highly seasoned leaders. Consistent with RHR's mission to help businesses succeed in their respective goals, we hope the findings from our research on great boards will provide useful stimulation and practical guidance to those seeking to continuously improve their contribution and service to the organizations they direct.

Making a Great Board

The next article, "Making a Great Board," is based on another study of 300 directors regarding the elements that most differentiated high-performing boards from average boards. It homes in on four key areas that directors noted as distinguishing great boards from others: quality dialogue, diversity of members, effective peer and board evaluations, and managing CEO succession. In challenging times, these aspects can help determine which companies successfully navigate existential threats and survive to outperform their peers.

Deborah Rubin

Senior Partner, Practice Leader Co-Head,
Board & CEO Services

Paul Winum

Senior Partner, Practice Leader Co-Head,
Board & CEO Services

What makes a board great? In his recent *Forbes* blog, entrepreneur Bryan Stolle, a former CEO and software company founder, suggests that a great board is the result of great board members—those who exhibit sound judgment and provide relevant context; offer wisdom, motivation, interest, and a compatible style; are effective coaches and mentors; and have the courage of their convictions. But some new research suggests that a great board is the result of much more than that.

Although it's clear the directors themselves are important, there are meaningful intangibles to consider: frankness among board members, the quality of discussion and diversity of opinion, group and self-evaluation, and the presence of strong leadership via CEO succession and board refreshment plans, to name a few. Following this line of thought, RHR International and NYSE Governance Services, Corporate Board Member® recently compiled the opinions of nearly 300 board members to find out what directors believe are the crucial elements for making and maintaining a strong board.

Four Keys to Success: Dialogue, Diversity, Evaluation, and Succession

Based on the results of our survey, we were able to establish the following keys to boardroom success:

1. Quality dialogue

The quality of boardroom dialogue and debate—followed by the ability to ask tough questions of management and diversity of thought and experience among members—was the most frequent answer given (88%) when the directors we surveyed were asked to name the most significant contributors to board effectiveness. Conversely, a lack of candor in the boardroom (77%) and a lack of mutual respect and a collaborative culture (68%) were the lead answers given when directors were asked to name the factors most likely to undermine board effectiveness (Figure 1).

Along these lines, a recent report from a KPMG audit conference held earlier this year notes that "best practices often focus on process, when substance and substantial thinking and dialogue are really the key."

Accordingly, several directors hit on communication when asked to describe what differentiates a great board from an average board. As one director said succinctly,

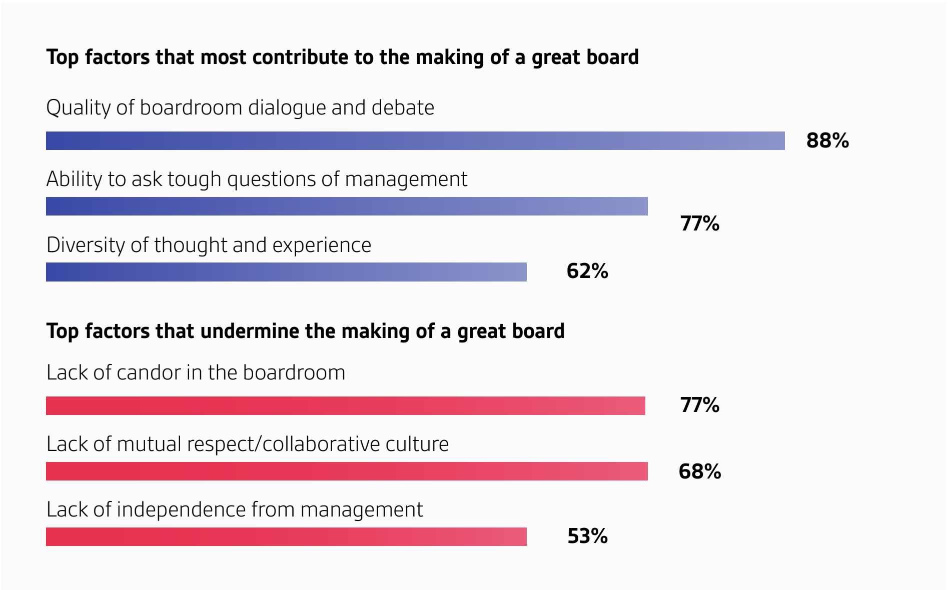


Figure 1

a successful board is "engaged, communicative, collaborative, candid, knowledgeable, [and] takes its responsibilities seriously."

"If you look at the composition of the boards of many of the top financial services companies before the 2008 swoon, they were often composed of a 'who's who' of highly accomplished business leaders. Yet, the whole in many cases was less than the sum of the parts. The way board members operate together, not who they are, is what differentiates a great board from an average one," offers Dr. Paul Winum, RHR's global practice leader for Board & CEO Services and the study's principal author.

2. Diversity among members
As noted above, diversity of thought and experience among members was one of the top three responses given when naming important attributes to board effectiveness. More than 60% of the directors we surveyed say diversity is a key factor, and 86% agree that a proactive approach to board diversity is a necessary building block of a great board.

> The way board members operate together, not who they are, is what differentiates a great board from an average one.

In summing up crucial board components, several directors reflected on the need for diverse backgrounds. One director pointed to the importance of "diversity of experience by directors who are actively engaged within the proper role of the board to provide oversight and perspective."

Mike Myatt, a leadership adviser to Fortune 500 boards and CEOs and a *Forbes* contributor who says he writes about leadership myths and "busts them one by one," offers 10 reasons why diversity is good for the boardroom. They include the fact that diversity reflects the real world and your customer base, leads to healthy debate and a necessary disruption of the status quo, and makes the company adaptable to an ever-changing environment. Myatt boils it down to one simple truth: "Board diversity is simply smart business."

Meanwhile, numerous governance experts and think tanks have expounded on the need for gender and racial diversity, with little success. A recent *New Republic* article title touts the need to fix the "very pale, very male boardroom," citing still-stagnant numbers in terms of the number of women executives and directors and people of color running Fortune 500 companies.

"Achieving the benefits of a diverse board requires going beyond just a quota approach and looking more deeply into the differing backgrounds and perspectives that result in less groupthink and more capacity to consider the range of ideas needed to govern well," Winum adds.

3. Effective peer and self-evaluations
In terms of their own evaluations, only 36% of directors rated their most recent experience with a board evaluation as "very effective" (Figure 2). For those whose experience was less than very effective, we asked why, and most said either the exercise was "all form, no substance" (44%), board members "were not candid" (34%), or the board "did not follow through on the evaluation recommendations" (33%). Further, 48% noted that corporate boards are not good at providing constructive feedback to board members on the quality of their contributions, and

30% said this is true specifically for the board on which they currently sit. So although it sounds like evaluations can be very useful, for many boards, there is much room for improvement.

TK Kerstetter, chairperson of NYSE Governance Services, Corporate Board Member, Intercontinental Exchange, says that a meeting to review the findings of board evaluations is critical. "If boards have identified action items or issues they want to correct, failure to implement those changes can have a major impact on how the board is perceived to handle its affairs," he says. Furthermore, Kerstetter adds, directors lose patience with the process if actions they identify as necessary aren't acted on by the chairperson.

Dr. Patrick Dailey, a member of RHR's Board & CEO Services practice, acknowledges that there are understandable obstacles that must be overcome for a board and director assessment process to be effective. "Because of the reluctance to criticize fellow directors, the board chair, or the board itself, the process for gathering input and delivering feedback must be done very skillfully for it to be more than a check-the-box exercise."

4. Managing CEO succession

When asked to choose from a list of possible actions that could be instrumental in making a great board, 81% of director respondents chose a "regular, ongoing evaluation program for CEO/leadership succession" as the most significant contributor. Many of the directors we surveyed believe their board does a credible job in this area. Sixty-seven percent indicated their board does a very good job managing and evaluating the performance of the CEO; 30% said they do this job at least somewhat well. (Interestingly, when asked about U.S. boards overall, these percentages were basically reversed: 33% said boards do this job very well, and 59% said they do it somewhat well.) Further, when asked to rate their board's effectiveness at aligning the CEO's performance with board expectations, two-thirds (68%) pronounced themselves effective, and 28% said they were at least somewhat effective at doing so (Figure 3).

"The good news is more and more directors are appreciating the importance of both CEO evaluations and succession," Kerstetter says. He notes that an effective CEO evaluation program requires leadership on the board's part and is being embraced more than ever before. Therefore, he says, it is important to establish a regular process for evaluating the CEO and discussing both the board's and the CEO's plans for the future: "Recruiting, compensating, cultivating, retaining, and planning for the succession of the CEO has always been one of the core responsibilities of the board, and boards that handle it well typically have a good foundation that allows them to be effective overall."

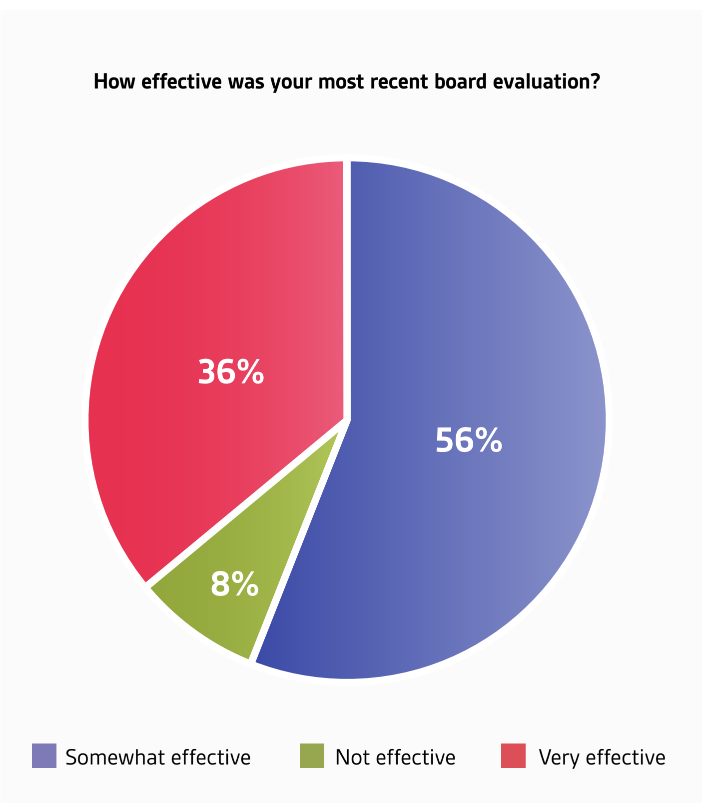


Figure 2

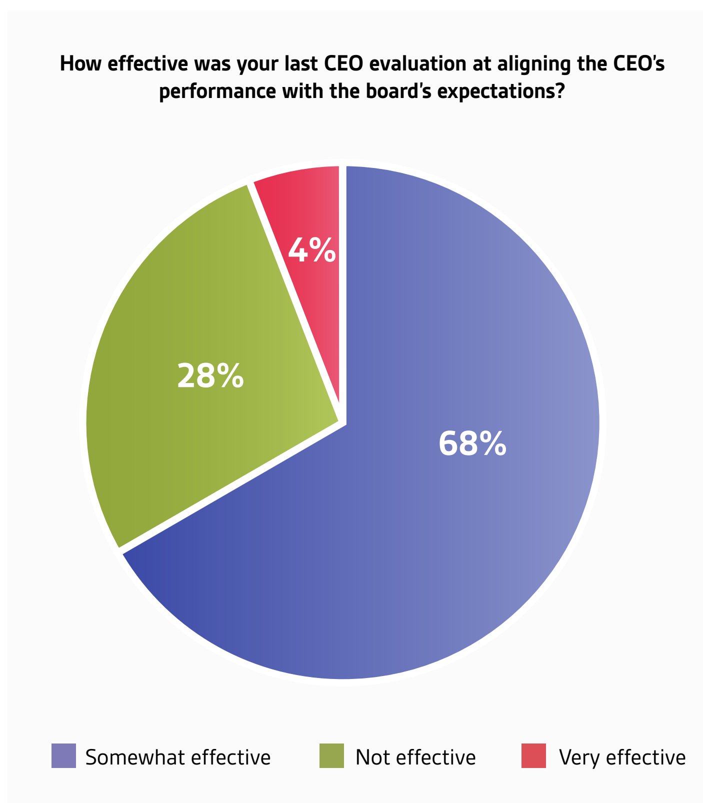


Figure 3

Other Key Takeaways

One encouraging note is that 87% of the directors we surveyed confirm that they have had the experience of serving on what they would consider to be a "great board." Most (73%) agree that a great board, compared with an average board, is a substantial contributor to a company's success (Figure 4), though they believe management, not the board, plays the primary role in determining a company's success. Beyond the four keys to success noted above, the directors we surveyed also place significant importance on mandatory equity ownership (49% very significant; 39% somewhat significant) and off-site board retreats (34% very significant; 37% somewhat significant). However, most don't find a mandatory age requirement or third-party facilitated board evaluations significant and are relatively split on the significance of splitting the CEO and chair positions (29% very significant, 33% somewhat significant, and 38% not significant). Further, in terms of important board attributes, they placed low importance on a willingness to engage with shareholders and the ability to leverage business relationships relevant to the company.

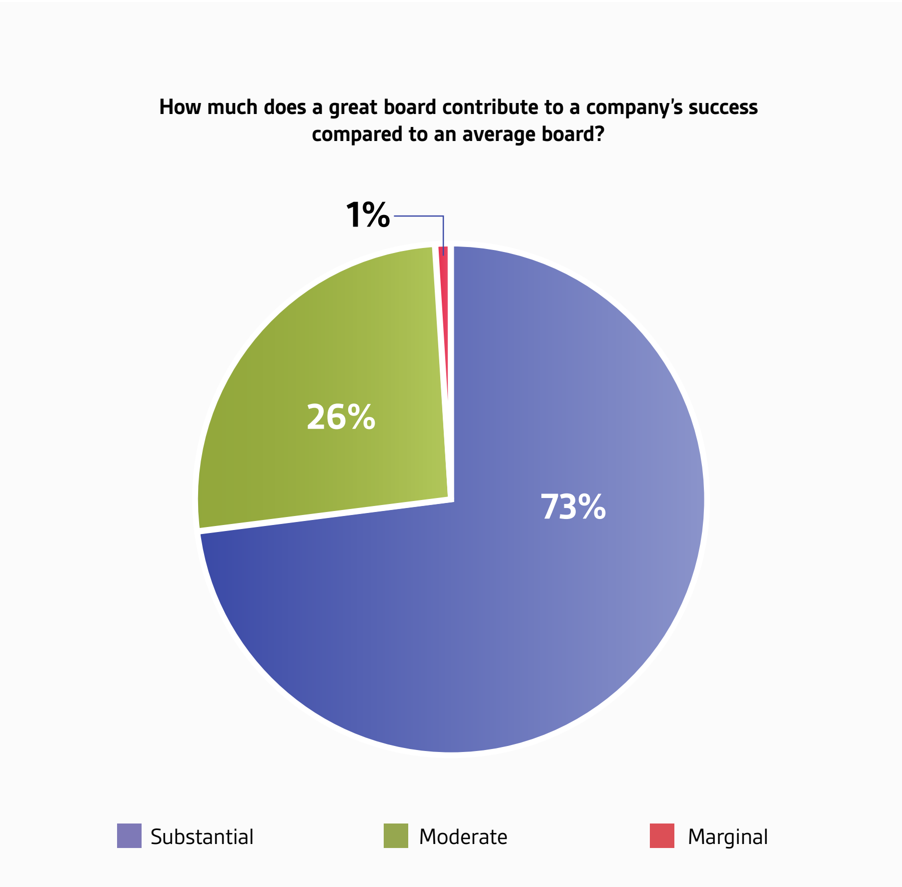


Figure 4

As to factors that could limit board effectiveness, a majority (53%) worry about a lack of independence from management, and 43% say ill-prepared directors could undermine success. With regard to the latter, a solid majority (59%) say U.S. boards overall fail to do a good job of replacing directors who are not contributing value; 27% say this is a problem on their board. The effectiveness with which a board renews itself and manages its own succession is a key factor to ensure a healthy and self-sustaining board.

"The bottom line here is the impact that a board has on the performance of the organization it is charged with governing," Winum says. "With 73% of the directors in this survey saying that a great board adds substantial value to a company's success, directors really have an obligation to their stakeholders to hold themselves to the highest standards of governance."

Becoming a Great Board Chair

Board chairs and independent lead directors clearly play a crucial role in fostering the effective (and even outstanding) functioning of their boards. However, realistically, individual leaders are unlikely to be excellent at all aspects of these roles. If forced to choose, which aspects are the most important? In the following research, we wanted to explore whether or not there are specific facets of the role that, if done exceptionally well, help set great boards apart from others.

Deborah Rubin

Senior Partner, Practice Leader Co-Head, Board & CEO Services

Kristen Gilson

Data Visualization and Analytics Consultant

Are there specific aspects of a board chair role that, if demonstrated at a very high level, are most likely to make the difference between a good board and a great one? Through our ongoing work with boards, we have found that the answer is yes. There are two board leader characteristics that significantly increase the likelihood that a board is maximizing its potential value to the organization. For the purpose of this discussion, we will be focusing on instances where the board chair and CEO roles are separate.

The first is the board chair's ability to establish a very high and consistent level of trust between themselves and the other directors. To be clear, we are not referring to scenarios where the board chair is not trusted. Obviously, a lack of trust in a leader creates a whole host of potential issues. We are specifically focusing on the differential impact created by the existence of a resounding level of trust in the board leader versus a solid, substantial level.

Results from our analysis on data captured as part of RHR's Board Development Survey* indicate that board members who feel strongly that their board chair is trusted by other directors[1] were significantly more likely to be serving on a board that is operating at the highest levels in multiple areas vital in today's challenging environment. In short, they were more likely to be at the helm of a great board.

When there is a high level of trust in the board chair, directors are significantly more likely to also trust one another, both admiring and relying on their peers' abilities and integrity. Not surprisingly, these boards are also more likely to operate with a high degree of independence from management. Under the board chair's leadership, these boards tend to have full, open, and candid conversations with the CEO and senior management. There is less emphasis on managing the messages and more investment in challenging assumptions and leveraging the perspectives in the room to arrive at better decisions[2].

The main commonality among many of the areas of board functioning that are differentially impacted by having a high trust in the board chair is that they involve interpersonal risk. When board chairs establish the highest levels of trust with their fellow directors, they create an environment that reduces these perceived risks and where important but difficult conversations proactively take place—ones that maximize the board's and the company's ability to perform.

On boards with a highly trusted leader, new directors are expected and encouraged to fully contribute to the board immediately. This is particularly important given that the current focus on bringing emerging skills and expertise to boards has also yielded a trend where approximately half of new directors are first-time board members. On the flip side, these are also the boards that are very effective at the challenging task of retiring directors who are not contributing as expected. With the rapid evolution of the business landscape, the opportunity cost to the board and the organization of an underperforming or less-relevant director continues to in-

> On boards with a highly trusted leader, new directors are expected and encouraged to fully contribute to the board immediately.

crease, yet human dynamics tend to delay these conversations[3].

The highest levels of trust come from a board chair who, among other actions, addresses conflicts in all its forms in a proactive, candid, and balanced manner; consistently invests time with directors to understand them as individuals, including their perspectives, values, and strengths; takes interpersonal risks to ensure authenticity; and is as explicit, proactive, and consistent as possible regarding expectations. Trust is also increased by thoroughly embracing the chair's roles as orchestra conductor, galvanizer, and culture steward versus imposing decisions or solutions based on their own expertise or experience. The latter approach is more likely to be demonstrated by those new to the role of chair or those who have had this role on the same board for an extended period of time, as this makes them vulnerable to a tendency to become somewhat tone deaf in their role as orchestra leader.

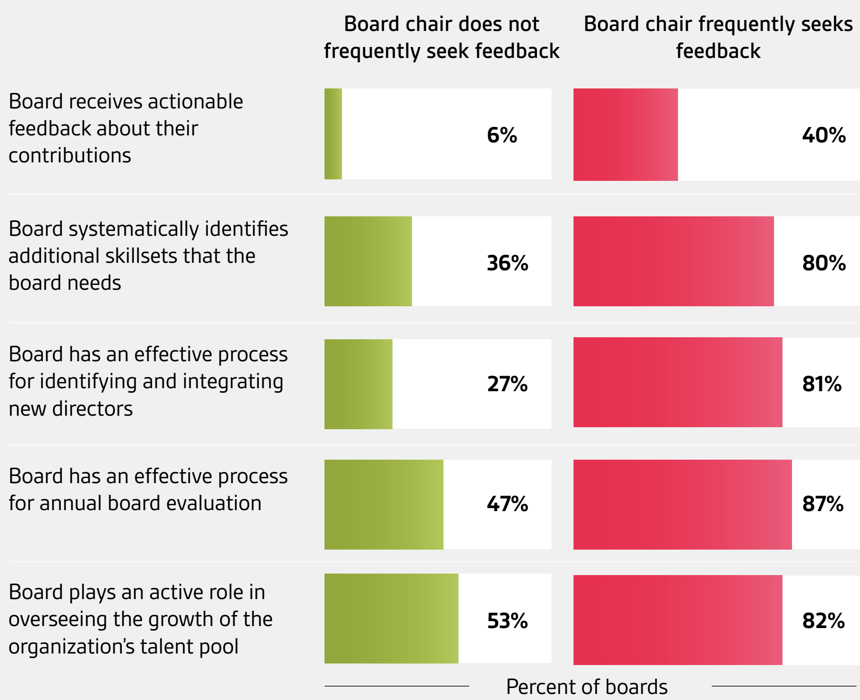
The second factor that significantly increases the likelihood of a high-functioning board is a chairperson who actively and routinely seeks and uses feedback about their effectiveness in the role. When we developed our Board Development Survey and the Great Boards benchmark norm, we found that members who feel strongly that their chairperson seeks and utilizes feedback were significantly more likely to be serving on a highly effective board. This simple (but not necessarily easy) action on the part of the chair, when consistently demonstrated, becomes part of a virtuous cycle impacting multiple areas that enable the board to evolve. Board chairs who proactively model this behavior are substantially more likely to lead boards that excel at board renewal.

For example, when board chairs are actively seeking and using feedback about their leadership impact on the board, it is significantly more likely that each director is receiving annual performance feedback regarding how to maximize their contribution and that this feedback is specific, constructive, and actionable. The boards led by these chairs are also considerably more apt to have a systematic and efficient process for identifying additional skillsets needed on the board moving forward—and these boards are more likely to have highly effective processes for identifying, cultivating, and integrating new directors who can bring the necessary skillsets.[4]

Although virtually all boards engage in an annual board evaluation process at this point, it is more likely that these evaluations are viewed as effective and identify real areas for improvement, versus a more rote, check-the-box approach. Fundamentally, board chairs who model obtaining and using feedback as a vital part of maximizing their ongoing performance in their role tend to set the stage (and expectation) for those around them to do the same. It is intriguing to note that in such cases, this focus on evolution and renewal does not stop with the board itself. These individuals are also significantly more likely to lead boards that are regularly engaged in succession planning for the CEO and other mission-critical roles, which ensures the organization is well prepared for future leadership transitions.[5]

Boards continue to face an increasingly complex and rapidly changing landscape of risks and opportunities, thus placing greater demands on directors and the board as a whole. However, through simple and consistent actions, the board chair can help maximize the odds that the board is continuing to evolve to bring its best to the company and its stakeholders.

Boards led by a chairperson who regularly seeks and uses feedback are more likely to have effective processes in place for board renewal and evaluation and are more involved in growing the organization's talent pool.



*RHR's Board Development Survey, designed to assist boards in identifying opportunities to improve their effectiveness, consists of 55 items across seven dimensions of governance. The original database was compiled from the response of directors who collectively serve on 120 boards of midcap and large-cap companies. Our research shows that the strongest boards have a strong chair leadership, healthy board dynamics characterized by candid debate, and a shared understanding of the organization's financial, regulatory, and operational risk-tolerance levels. For the full survey results, please contact kgilson@rhrinternational.com.

[1]As indicated by selecting that they strongly agree that their board chair is trusted by other directors. [2]The correlations between the behaviors in this section and the trust in the board chair were all positive and significant, ranging from r = .47. [3]The correlations between the behaviors in this section and trust in the board chair were all positive and significant, averaging r = .47. [4] The correlations between the behaviors in this section and the board chair seeking and utilizing feedback were all positive and significant, ranging from *r* =.46 *to r* = .50. [5]The correlations between the behaviors in this section and the board chair seeking and utilizing feedback were all positive and significant, ranging from r =.38 to r = .50. This article was originally published on the Corporate Board Member website.

CHAPTER TWO

Board Dynamics

The Potential Upside

Introduction

Boards are composed of talented, highly experienced individuals who are also human. Expecting and harnessing the dynamics that inevitably arise when these individuals come together as a board can enable board leaders and individual directors to maximize their collective ability to deliver the impact needed by the stakeholders relying on them. The following articles provide some provocative food for thought.

The Best Boards Find Strength in Tension

Interesting insights regarding what contributes to optimal board functioning can be gleaned by examining emerging research about high-performing senior leadership teams. Understandably, board members seek to adopt a respectful approach to engaging with their peers. But at the end of the day, the ability to constructively manage and channel conflict tends to be more important than cohesiveness. This next article explores this observation in more depth.

Paul Winum

Senior Partner, Practice Leader Co-Head, Board & CEO Services

In a recent *Harvard Business Review* article, three of my RHR colleagues (Orla Leonard, Nathan Wiita, and Christopher Milane) reported the results of research they have been conducting for the past six years about enterprise-wide leadership teams. "The Best Senior Teams Thrive on Disagreement" summarized their work with 99 senior management teams across a variety of industries.

The teams completed surveys of 110 items that addressed everything from team structure to processes, results, and dynamics. More than 700 of the executive leaders on these senior management teams also provided data about their company's organizational performance (sales, revenue growth, new product development, and market share).

One of the big findings of this research was the high correlation between top-team performance (as measured by business outcomes) and the ability to manage conflicting tensions. Cohesion, formerly thought of as perhaps the most important attribute of a high-performing team, was not so important. The best teams strike the right balance between cohesion and constructive conflict. After reading this HBR article, I was reminded that this finding is also quite applicable to the functioning of effective boards.

This observation was made at the 2017 Stanford Directors' College by the panelists on a session entitled "CEO and Board Psychology." The best board directors now do more than provide oversight—they proactively challenge each other and management to navigate the inherent tensions between the pursuit of short- and longer-term results and taking and managing risks. They also recognize the continual need to adapt to the rapid pace of change in the competitive landscape they operate in.

As Leonard, Wiita, and Milane argue, success for teams charged with enterprise leadership now requires the ability to innovate, which depends on challenging both the status quo and a culture that encourages high levels of trust and transparency. Great board chairs are able to convey expectations for constructive tension and facilitate candid dialogue. They construct agendas that aren't just filled with a parade of presentations but that leave time for discussion of complex issues. And they promote a respectful, collaborative partnership between board members and management that results in continuous improvement and strategic value.

Innovation and risk-taking almost always cause friction and tension, and strong boards recognize the merit in embracing rather than avoiding this inherent duality. Ambitious, achievement-oriented executives welcome and value that kind of challenge. It's how boards contribute value these days. ■

Great board chairs are able to convey expectations for constructive tension and facilitate candid dialogue. They construct agendas that aren't just filled with a parade of presentations but that leave time for discussion of complex issues.

Picking the Good Fight: Leadership in the Boardroom and C-Suite

Continuing with the theme of constructive conflict, the next article focuses on situations where boards and CEOs must choose between several difficult paths. Ensuring that this choice is based on what is ultimately the best for the organization and stakeholders over the long haul and not the one that seems the easiest in the short term is critical. Scores of unfortunate examples of companies in different industries demonstrate that the path of least resistance is not necessarily the wisest choice.

Deborah Rubin

Senior Partner, Practice Leader Co-Head, Board & CEO Services

Leadership in the boardroom and the C-suite increasingly requires a balance of wisdom and mettle. This is particularly true in the age of activist investors, social media, and proxy advisory firms. Leaders need wisdom to ask the right questions, recognize possible scenarios and risks, and understand the dynamics in play. However, perhaps even more than in the past, these leaders must also summon the mettle to dramatically increase the pace of decisions to fit a window of opportunity or to intentionally forge a strategic path that involves either a battle or a setback in near-term business performance. Leaders, now more than ever, need to pick the good fight. Although there are multiple options to choose from, here are a few examples.

Proxy advisory firms tend to incorporate external measures for good board governance that are based on typical business conditions. These formulas do not necessarily have the same utility for extreme or unique situations. However, flags will still be thrown when results are outside the guidelines. For example, determining the right executive compensation for a company in a longer-term turnaround can be challenging because in the near term, the business performance may not justify the level of compensation. However, how do you keep key executives who did not create the situation they are striving to fix? There is no easy win here. The only path is to make decisions based on a sound business plan and be prepared to defend them—versus looking for an option that will not be challenged. Otherwise, you risk explaining to stakeholders one year later why you created the situation where you lost your key senior executive team members to better options.

Highly talented but severely flawed executives can present another conundrum. Unless it involves illegal activities, it is tempting for organizations without a strong commitment to a set of values to downplay the severity of the executive's actions. Senior executives may view each event in isolation (instead of acknowledging a trend) or delay acting when faced with bad behavior by an otherwise high-performing individual, as the negative impact on revenues or profits can be significant. Bad behavior becomes even more difficult for leaders to address when there are long-term, loyal relationships involved. However, today's power of information flow is too great to keep the incidents under the radar forever. Even if one chooses to treat each event in isolation, others are not likely to do that, and the unintentional story that develops can prove damaging to the leaders—and potentially to the organization.

Unforeseen developments within an industry can quickly create the need for difficult, rapid business decisions to adjust to the new reality. Members of the C-suite tend to come to this realization at different times, and it is not always the CEO who first recognizes the implications. This can lead to a critical disconnect between the CEO and members of their team regarding key strategic choices and the business implications. Although

> Battles fought early are sometimes easier to win or weather than those left too long.

unresolved strategic misalignment between a leader and their boss generally predicts a shortened tenure, senior executives owe it to their CEO and the organization to be persistent and articulate in highlighting the implications of the current path and the consequences of either not making course corrections or delaying the response for too long.

Things to consider that leverage both wisdom and mettle:

1. **The need to buy time or find the right moment.** This is a realistic consideration, but it should be viewed with a clear eye regarding the costs of delay. If this is the go-to response, the odds are that the appeal stems from fear not wisdom. Windows of opportunity tend to close, and storms may increase in substance.
2. **Action is better than no action.** Most decisions can be modified based on further data, and many will need minor tweaks instead of major overhauls. However, inaction reinforces stasis and second-guessing. With no forward movement, the organization can find itself left behind.
3. **Ongoing avoidance erodes options.** Battles fought early are sometimes easier to win or weather than those left too long. Although the early battle will have risks, it is easier to proactively take on a problem than it is to clean up the mess created by unintended consequences.
4. **Create a compelling message.** In this age of social media, it is important to get ahead of messaging and to create a plan for proactively telling your story and dealing with negative press (both internal and external).

The worthy fights are those required for the success and sustainability of the business, even if they are painful in the short term.

"The only path is to make decisions based on a sound business plan and be prepared to defend them—versus looking for an option that will not be challenged."

Psychology in the Boardroom: Part 2

Social and psychological forces are always at play at the board level but are more readily apparent under times of stress. What are the elements and actions that help prepare boards to effectively leverage their collective wisdom and be ready when forced to navigate unexpected, potentially existential threats facing their companies?

Paul Winum

Senior Partner, Practice Leader Co-Head, Board & CEO Services

This is the second of a three-part series examining the topic of how social-psychological forces impact the performance of boards and CEOs. The topic was addressed at the June 2017 Stanford University Directors' College in a panel titled "CEO and Board Psychology."

> The old adage, "It's the storm not the calm that makes the sailor," certainly applies in the boardroom.

The Stanford Directors' College once again proved to be a very stimulating forum attended by more than 250 directors and governance specialists. With keynote speakers who included highly accomplished CEOs, board directors, and government officials (e.g., Marissa Mayer of Yahoo, John Thompson of Microsoft, Brian Cornell and Roxanne Austin of Target, former United States Secretary of State Condoleezza Rice, former United States Secretary of the Treasury Robert Rubin, and Aida Alvarez, the first Latina woman to hold a United States Cabinet-level position), the content covered a range of current governance trends. The plenary panel I participated in addressed the issue of dynamics in the boardroom and the relationship between the board and CEO. Facilitated by Sy Lorne, the other panelists were Maggie Wilderotter, Larry Sonsini, and Majken Schultz, with collective experience serving on and advising more than 100 boards.

Here are a few of the highlights from our panel:
What are the factors that contribute to an effective board? The panel talked about five Cs: composition (having the right skills), collegiality (mutual respect among directors), collaboration (working together on a common agenda), constructive conflict (the ability to challenge each other and management to deliver value in decision-making), and courage (the willingness to take potentially unpopular or contrary positions in the face of conformity pressures).

What kind of relationship is most productive between a board and CEO? The consensus is that a partnership between a board and CEO that encourages transparent communication and challenging conversations yields the best value. It was also recognized that when directors are invited to serve on boards by the CEO, particularly a founder/CEO, loyalty to that CEO can be a deterrent to fully candid dialogue. As part of the recruitment and onboarding process, a new director and CEO should discuss their mutual expectations and role relationship with each other to ensure the proper partnership.

How to deal with the threat of activist investors? An interesting suggestion was discussed whereby boards conduct an annual exercise to look at the company they are directing as if they were activists. By proactively identifying a variety of scenarios to maximize the value of the company, a board can be much better prepared if an activist comes knocking at the door.

How does a board ensure it is adding value? There was a strong consensus that every board should conduct an annual self-evaluation, including providing feedback to individual directors about their contributions and ways they could increase their value. It was recommended that an independent evaluator be used to ensure objectivity and candor. Input from the management team about the benefits they receive from the board was cited as an important element to a good evaluation.

The old adage, "It's the storm not the calm that makes the sailor," certainly applies in the boardroom. When a company is performing well, with a high-function-

ing CEO, board service is relatively easy. It's when a company is facing serious competitive threats, underperformance, the need to replace a CEO, or an activist at the gate that the board's culture and value are really put to the test. Preparing for those possibilities is a best practice in governance and helps a board navigate those situations should they arise. Implementing the recommendations of this panel will help a board avoid some of the social-psychological pitfalls of social conformity and groupthink that can cause an otherwise highly capable set of board directors to be less than the sum of the parts.

What are the factors that contribute to an effective board? The panel talked about five Cs: composition, collegiality, collaboration, constructive conflict, and courage.

CHAPTER THREE

The Board/ Senior Management Relationship

Introduction

The power dynamic between boards and senior management can amplify the impact that boards unwittingly have on the senior team. The more clearly directors understand what senior management teams need from their boards, the more effective the partnership between the two groups. Not only does an effective board/ senior team partnership prevent the jeopardization of a board's ability to provide good governance, but it also is a key ingredient and correlated with a company's overall performance. This chapter highlights areas for directors to consider, probably in a more frank and direct manner than senior teams are at liberty to convey to their own boards.

What Do Management Teams Want from Their Boards?

This first article focuses on specific actions that directors can take to maximize their impact when engaging with the senior team. Although these seem simple on the surface, it is also clear that these are steps that directors do not consistently take.

Paul Winum

Senior Partner, Practice Leader Co-Head, Board & CEO Services

Boards and management teams have distinct roles in their partnerships to maximize the success of the enterprises that they lead. Over the past couple years, RHR has conducted board evaluations with more than 200 individual directors and members of management teams who interface with board committees. In the interviews, we asked management teams about their experiences working with directors and for recommendations on how their boards can enhance their value proposition. Here are some of the things we consistently heard.

1. Do your homework to understand our business thoroughly

Management teams usually spend many hours preparing for board meetings. One of the top frustrations they express is responding to directors' questions—or worse, suggested actions—that reflect a lack of understanding about the company's real business context and challenges. Conversely, management teams genuinely value questions from directors who offer perspectives and counsel informed by a thorough grasp of the competitive landscape and the key drivers of the P&L. This first point suggests that companies need to ensure a very robust onboarding and continuing education process to equip directors with the knowledge they need to contribute in a meaningful way. Doing so allows directors to best prepare for board and committee meetings. Simply browsing through the board book on the plane on the way to meetings doesn't cut it anymore. Directors need to be continuous students of the organizations they govern and be proactive in making sure they have the information they need to really understand the key issues management teams are grappling with.

2. Help us think through strategic options

Whether in committee meetings or full board sessions, agendas are too often devoted to reporting or "show and tell" presentations by management teams to update directors on the business. The underlying assumption is to demonstrate to the board that management is on top of their responsibility in running the company. Given the challenging environment that organizations function within these days, more and more management teams (and boards for that matter) are asking for less agenda time focused on report-outs and more time for discussion of key strategic issues. To accomplish this, all the information to update the directors on company performance should be sent to directors in advance of meetings, along with some key questions or issues that the management team would like the board's input on. This allows for less time spent in board and committee meetings informing directors, leaving more time for strategic discussion.

3. Hold us accountable but let us handle the day-to-day management of the organization

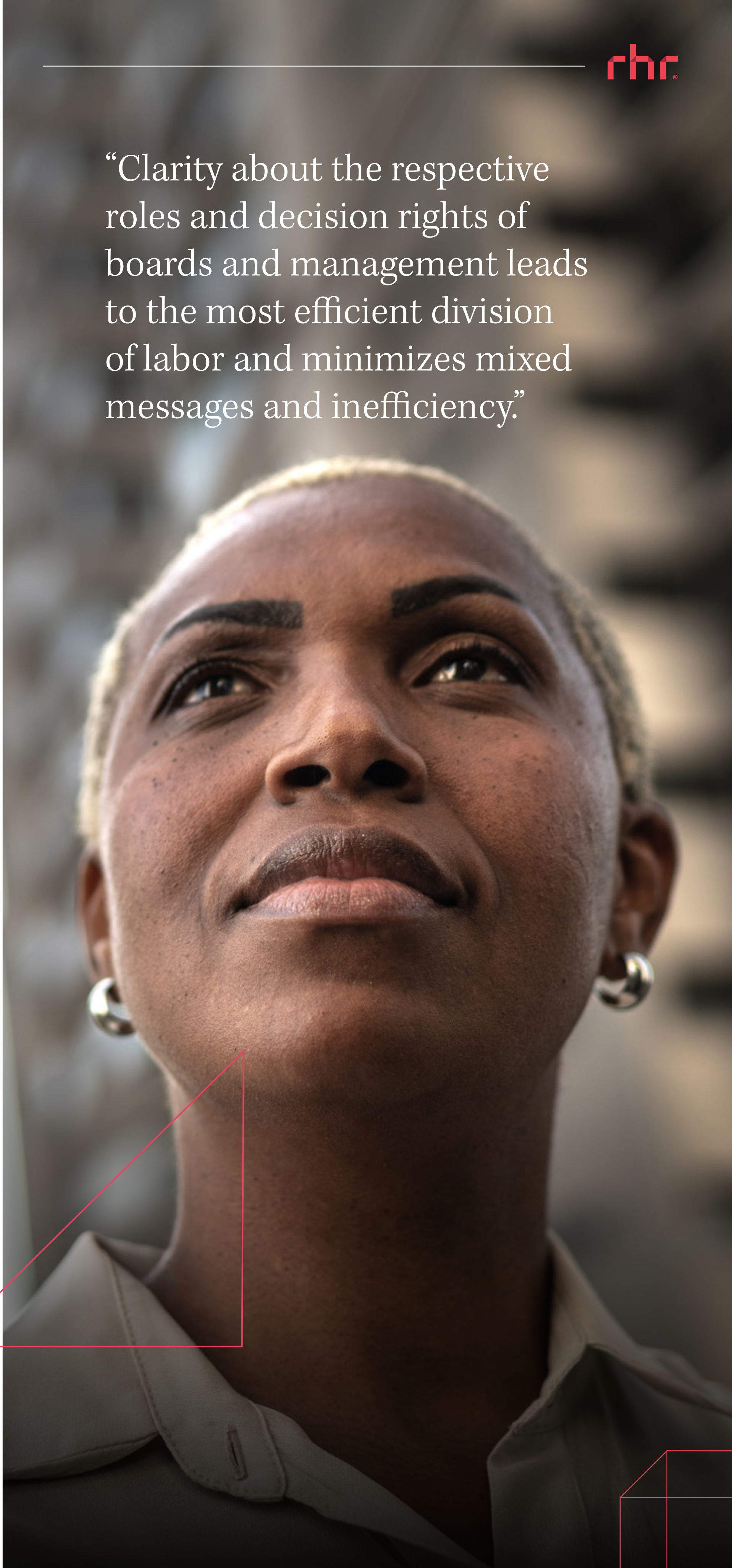
In their effort to be helpful and add value, sometimes directors cross the line drawn by their governance role into the management realm. Although directors can sometimes add value (when invited to do so) by making suggestions about how to execute, management teams often get frustrated when board members exert their power by directing executive team members on execution. Clarity about the respective roles and decision rights of boards and management leads to the most efficient division of labor and minimizes mixed messages and inefficiency. Individual directors need to be very thoughtful about how they insert themselves in any operational matters, if at all.

Simply browsing through the board book on the plane on the way to meetings doesn't cut it anymore.

4. Leverage your network on our behalf
Several CEOs we work with refer to their board members as invaluable resources to open doors through the relationships they have cultivated over the years. Whether with regulators, potential customers, key suppliers, or domain experts, the best directors have a network of contacts who are relevant to the company's business and are able to make warm introductions to key stakeholders in the organization's ecosystem. Although this is always a welcome contribution, it is especially valuable in start-ups and younger enterprises and can even be an essential requirement in composing the board and in board succession planning.

5. Invest in our learning and development
Boards of directors are ideally composed of highly experienced and seasoned business leaders. Almost to a person, the management team members we have interviewed told us they deeply appreciate directors who take the time and effort to get to know them and who are committed to their ongoing development. Although primary responsibility for talent and career development resides with the CEO, chief human resources officer, and the executives themselves, many CEOs and executives rate their boards more highly when their interactions with directors offer new ideas and perspectives that enrich them. Some boards go so far as to set up mentoring opportunities for management team members with selected board members.

The CEOs and management team members we work with certainly understand and respect the role and responsibility of boards to hold them accountable. By adopting the recommendations suggested above, directors can extend their contributions in supporting and sustaining the best performance by management over time.



> "Clarity about the respective roles and decision rights of boards and management leads to the most efficient division of labor and minimizes mixed messages and inefficiency."

Board Governance Dimensions: Which Correlate Most with Positive Organizational Outcomes?

How important is the overall quality of the board/CEO partnership? As it turns out, it is critical. The following article highlights key aspects of the board/CEO relationship that correlate with overall organization performance.

Paul Winum

Senior Partner, Practice Leader Co-Head, Board & CEO Services

Kristen Gilson

Data Visualization and Analytics Consultant

Jeff Kirschner

Partner

Beyond fulfilling a compliance requirement, board evaluations can be a great tool for helping boards elevate the value they contribute to the organizations they govern. The process for conducting board evaluations usually involves a survey of directors with questions about a range of governance practices. In constructing RHR's Board Development Survey, we took this approach a step further as a complement to our interview-based method: we correlated items with board member ratings of key organizational performance dimensions such as market share, profitability, employee engagement, and quality of products and services.*

So which items correlated most highly with ratings of those key organizational performance dimensions? The answer: the ones pertaining to the partnership between the board and CEO. In particular, the items concerning CEO compensation, candid and open communication, and effective partnership built on trust had the strongest relationships with these performance outcomes. Here are the three most important things we found:

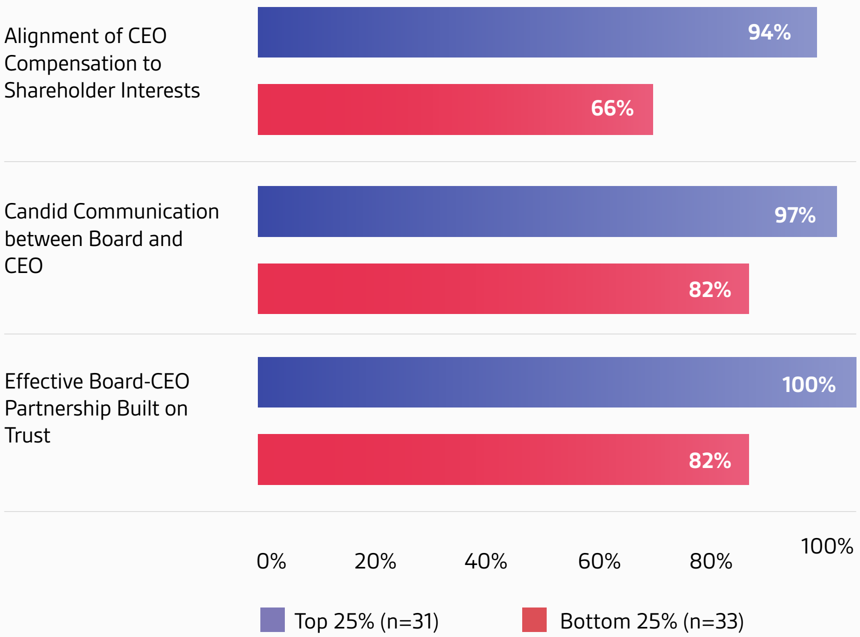
1. **CEO compensation:** When the board believes that CEO compensation is well aligned with shareholder interests, the organization is more likely to be rated by board members as higher in profitability (r = .40), quality of products and services (r = .34), and employee engagement (r = .33).
2. **Communication:** When the CEO communicates more candidly and openly with senior management and the board, the organization is more likely to be rated by directors to have stronger employee engagement (r = .26) and profitability (r = .25).
3. **Trust:** When CEO/board partnerships are fundamentally based on trust, the organization is more likely to be rated higher in profitability (r = .28) and employee engagement (r = .27).

This data confirms findings from board evaluations RHR has conducted for clients. At Mastercard, where the board and governance practices are best in class, the partnership between the CEO Ajay Banga and the board is rock-solid and characterized by a high degree of mutual trust. Dialogue in the boardroom is open and candid. The CEO and board chair have built a very strong working relationship that enables the company to benefit from the advice and counsel of a diverse, highly knowledgeable, and committed group of directors.

What are some of the implications of this research for business practice? First, knowing the level of scrutiny given to CEO pay practices, the board needs to be able to tie compensation to concrete and measurable outcomes that go beyond share price. For example, the scorecard we use in our CEO

> Fair compensation and regular communication can serve as building blocks for the most important aspect of CEO/board partnerships—trust.

When comparing the results of our Great Boards benchmark group (the top 25% of organizational performance ratings) to the bottom 25%, we found significant differences between those who responded either "agree" or '"strongly agree" on the following items:



"The CEO and board chair have built a very strong working relationship that enables the company to benefit from the advice and counsel of a diverse, highly knowledgeable, and committed group of directors."

evaluation service includes metrics for financial performance, people and culture, strategic direction and innovation, reputation management, and personal leadership.

Effective communication is another important area of focus for productive CEO/board partnerships. It is critical to establish two-way communication channels to ensure that everyone is aligned with the overall business strategy. In many situations, the board is isolated from the business and serves mainly as an advisory body for the CEO. By opening up channels of communication between the board, CEO, and senior management, leaders in the business can benefit from the board's expertise while the board can gain insight into the operational effectiveness of the organization. Similarly, the CEO can benefit from regular contact with the board chair and other board members to gather opinions and provide updates so that everyone is kept in the loop. Fair compensation and regular communication can serve as building blocks for the most important aspect of CEO/board partnerships—trust. Trust takes a long time to build and can be dismantled in an instant. To build trusting relationships, both the CEO and board members have to be aligned in their interests, but more importantly, they have to behave in ways that are mutually beneficial. A CEO who controls the board is not maximizing an important resource. Similarly, the board members need to support the CEO by providing clear objectives, regular oversight, and helpful advice in ways that can be heard and adopted. Trust builds between a CEO and the board by working together over time to build a partnership that advances the business and drives financial success. ■

This article was originally published on the Corporate Board Member website.

*RHR's Board Development Survey consists of 55 items across seven dimensions of governance. The original database was compiled from the responses of directors who collectively serve on 120 boards of midcap and large-cap companies. For the full survey results, please contact kgilson@rhrinternational.com.

Setting the Foundation: Building a Strong Board-CEO Partnership

Given how important the board/CEO partnership is, how does a board proactively set the foundation for an effective relationship with a new CEO? The following article offers suggestions.

Jeff Kirschner

Partner

Establishing a positive connection between the board and the CEO is never more important than when onboarding a new CEO. Actions taken during the first few weeks and months of a new CEO's tenure will establish the groundwork for a successful ongoing relationship. Here are some tips for getting off to a fast start.

1. Provide feedback regarding the hiring process: Both the selection criteria and job description for the CEO position should be discussed directly with the new CEO. Framed correctly, feedback about the CEO's fit with those role requirements can help level-set expectations and get the relationship off to a good start. Without those guideposts, a new CEO will continue to behave consistently with what they have done previously. What has worked for them before may work against them now, and ongoing feedback is critical for successful adaptation. Creating a formal development plan based on the selection assessment results represents one best practice.

2. Discuss performance expectations: It will be important for both the board and the CEO to voice their expectations early in the new relationship so everyone has a clear roadmap to work from. Those expectations can cover what the key performance metrics are and how the board-CEO relationship will ideally play out. Providing the new CEO with a clear set of behavioral guidelines and goals will help them assimilate more rapidly into a new culture.

3. Establish an ongoing communication cadence: As previous research from RHR's Board & CEO Services practice indicates, the quality of the communication between the board and the CEO is highly correlated with organizational performance. Identifying the frequency and process for communications will be important. There will be formal presentations and informal conversations that take place, and laying the groundwork for the expected frequency and length of those interactions should help provide guidance for both parties. For example, setting the expectation for the CEO to send an email to the board to recap action steps from the last board meeting and establish the agenda for the next meeting will help ensure clear communication.

4. Start with questions, not with statements: Ideally, the board will be an important source of advice for the new CEO. Unsolicited advice can lead to resistance, so it is advisable for the board to initially hold back on their opinions and first respond to the CEO's requests for counsel. As the relationship becomes solidified over time, the board members can use their own judgment about what advice is likely to be valued by the CEO.

In the best-case scenario, there will be an open and fluid give-and-take about individual and organizational performance by both parties. This should be guided by the fiduciary responsibility that both the board and the CEO own.

5. Invest the time needed to establish rapport: Any new CEO recognizes that their relationship with the board is fundamental to their long-term success. They will need to invest the time needed to understand the personalities involved and what their communication needs and preferences are. At the same time, the new CEO can help solidify relationships by sharing their vision for the business and asking for input on

Providing the new CEO with a clear set of behavioral guidelines and goals will help them assimilate more rapidly into a new culture.

strategy. Both formal board meetings and informal dinners will help facilitate that goal. Over time, the investment in relationship development a board and CEO make will generate a foundation that promotes trust and transparency.

6. Recognize that each board-CEO relationship is unique: It is natural for the board to look at a new CEO in the context of the former CEO. If the relationship was positive, the board will try to replicate that dynamic with the new leader, but if it was lacking in some way, the board will look to correct that deficit with a fresh start. Given that each board-CEO relationship is unique, it is important to give the new relationship some time to develop naturally before jumping to conclusions. Establishing a mutually beneficial relationship early on will help build lasting partnerships later on.

In summary, gaining clarity about expectations and establishing positive working relationships early in a new CEO's tenure will lead to long-term success. Board-CEO interactions can be fragile at first, but if the foundation is solid, the alliance will be able to withstand the turbulence that is part of every new journey. Investing the time and energy needed to get off to a good start will pay dividends in the future. ■

Over time, the investment in relationship development a board and CEO make will generate a foundation that promotes trust and transparency.

CHAPTER FOUR

Board Renewal

Introduction

Just as companies and their leaders must adapt to evolving business, geopolitical, and social landscapes in order to succeed, the ongoing effectiveness and impact of boards is dependent on their ability to embrace and foster adaptation and renewal. As changes continue to accelerate, the half-life for the relevance of a director's prior business experience shrinks, and the overall impact of the board can rapidly erode unless the individual members and the board as a whole also evolve. This erosion in relevance and impact can occur under the radar and surface when the company encounters an unforeseen challenge or when problematic dynamics play out at the board level. However, through proactive, consistent steps, boards can ensure that individual directors and the board continue to be engaged and fit for purpose; identify the need to add directors with new experience, backgrounds, or skillsets; and avoid the dramas generated by underestimating the importance of robust renewal practices.

How to Conduct a Proper Board Evaluation

Perhaps one of the more effective catalysts for adaptation at the overall board level is a comprehensive, well-run board evaluation. The first step of this journey is to move beyond a check-the-box approach and opt for the approach noted in the following article at least once every three years. Written in 2017, we included it because the points remain relevant today.

Paul Winum

Senior Partner, Practice Leader Co-Head, Board & CEO Services

As the year draws to a close, members of board nominating and governance committees are preparing for the annual board evaluation required for publicly traded companies listed on the NYSE, Financial Times Stock Exchange, and Nasdaq stock exchange. Here are some suggestions for doing good board assessments that can help your board add even more value in the new year.

With the increasing pressure on boards to deliver on their governance and oversight responsibilities, annual board evaluations have the potential to aid boards in raising the positive impact they can have on the companies they direct. Unfortunately, too often these evaluations are done in a cursory, check-the-box manner that doesn't result in concrete actions that improve board effectiveness. In fact, 620 directors who responded to a survey that RHR did in collaboration with the NYSE Governance Services indicated that over half of the evaluations their boards conducted were not very effective.

There are many reasons to undertake a proper board evaluation. Do-it-yourself approaches can be compromised by self-justifying confirmation and halo biases. The lack of proper evaluation criteria can be a stumbling block and can result in an insufficient understanding of issue complexity and nuance. And there can be a fear that full candor could damage relationships among directors.

With that as background, here are eight steps that boards can take to generate constructive, actionable feedback about how they can improve.

1. Use both a survey and interview method.
Surveys can generate data that signals areas of strength and areas for improvement. Interviews offer the opportunity to more deeply assess and understand the subtleties and nuances of complex governance and board effectiveness issues.

2. Include input from both directors and members of the management team.
Members of the management team who interface with directors and committees of the board are an important stakeholder group with direct experience of how the board is adding value. Including their input in a board evaluation offers a useful perspective to the board that can also strengthen the partnership between the board and management team.

3. Ensure complete anonymity.
The validity and utility of any survey or interview data is immeasurably enhanced when directors and management team members can offer their assessment with full confidentiality.

4. Start with an explicit definition of the board's purpose and value proposition and address the key functions related to the value proposition.
A good evaluation process assesses a board's actual value contribution against its aspired value proposition. The primary board functions of fiduciary oversight, risk

> Unfortunately, too often these evaluations are done in a cursory, check-the-box manner that doesn't result in concrete actions that improve board effectiveness.

management, committee functioning, policy and capital allocation decisions, as well as CEO and mission-critical role succession should also be included.

5. Provide feedback to individual directors.
Board members are generally high-ach-ieving, performance-oriented executives who want to add value and who appreciate feedback about how they are doing so if delivered in a constructive manner.

6. Agree on areas for improvement and an action plan.
The evaluation process should result in agreements about how the board's value can be increased, and concrete steps to enhance its effectiveness should be made.

7. Execute the action plan.
Although doing a board evaluation does check the compliance box, a good nominating and governance committee chair makes sure the plan gets implemented and tracks execution progress.

8. Use an outside assessor.
The best-practice recommendation these days is using an objective third-party expert to conduct a board evaluation every two to three years. That can also provide a benchmarking of best governance practice and counter confirmation and halo biases a board may have.

Following these suggestions will result in higher quality and more useful data that can help your board improve how it operates and contributes to the success of the organization and shareholders you are serving. It will also lead to a more rewarding set of experiences for directors and members of management as they act in partnership to lead the company.

"A good evaluation process assesses a board's actual value contribution against its aspired value proposition."

About to Do Your Next Board Evaluation? Add Input from Your Management Team

The more robust the board evaluation process, including the sources of input, the more likely that meaningful and specific opportunities to become even more effective will emerge. Including feedback from key members of the management team helps shed light on the board-senior team dynamic and can calibrate whether the board, in addition to providing good governance, is also delivering the necessary value-add to the company.

Paul Winum

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'Tis the season when most boards are preparing to conduct their required annual evaluation. Recently, EY's Center for Board Matters published a brief about how Fortune 100 companies are evolving their board evaluations and disclosures. The Society for Corporate Governance referenced the EY study in this week's *Society Huddle*, which reported some interesting statistics on company practices in board evaluations and the disclosures on their evaluations to shareholders. For example, 92% of the boards among the Fortune 100 for whom proxy statements were available for 2019 (79 companies) provided board evaluation disclosures in their proxy statements. Furthermore, 39% of those same companies reported the inclusion of individual director self-evaluations in addition to full board and committee evaluations. That percentage represented a significant increase over the 2018 figure of 24%. Clearly, providing directors with individual feedback—or alternatively, feedforward—about how they are contributing is an emerging best practice.

In addition to survey and interview methods to gather input from directors on how the board and individuals are contributing, there is another group of stakeholders whose input can also be very useful to a board evaluation: the members of the company's management team who interface with the board. Although boards of directors have a primary duty to serve the interests of shareholders, an important stakeholder group with whom a board must work to deliver on that duty is the executive management team. Over the course of the year, directors are exposed to and interact with the chief financial officer , CHRO, major business unit heads, and other C-suite leaders both in full board sessions and in committee work. The quality of those interactions is critical to a board's ability to do its job and provide a great, mutual opportunity for directors and management team members to align and collaborate. Those contacts enable board members to get to know mission-critical talent and allow management team members to broaden their perspectives and development. Incorporating input from those members of management who interface with the board can be a valuable source of data and insight about board effectiveness.

The EY study of board evaluation practices in 2019 reported that 27% of Fortune 100 boards used or considered using an

“Although boards of directors have a primary duty to serve the interests of shareholders, an important stakeholder group with whom a board must work to deliver on that duty is the executive management team.”

outside facilitator for their board evaluations. When RHR works in partnership with boards to conduct evaluations, we routinely survey and interview selected members of the management team who interact with directors on the following questions:

- What is the value that this board needs to contribute to the enterprise's success at this time, and how well is it delivering that value?
- How effectively are the committees you interact with executing against their charters?
- Does the board focus at the right level to deliver strategic value and respect the boundary between governance and management?
- Does our board demonstrate an adequate depth of understanding of our company's business, strategy, and competitive landscape to deliver high-impact value?
- Are there areas of experience and expertise that our board could add to enhance its ability to advise and guide us?
- Does the trust level and working relationships among board members and management permit fully candid and open dialogue inside and out of committee meetings, and does our CEO support open access and transparency?
- What are the top strengths of the board, and what are the board's opportunities to maximize their contributions toward the success of the enterprise in the future?

Not only does the invitation to offer input delight the participants who are invited, but the answers to these questions often generate invaluable insights and suggestions to enhance board effectiveness. So as you prepare for your board's next evaluation, consider including input from the management team on whom you and your shareholders depend to execute your mission, vision, and strategy. ■

Board Development: The Importance of Director Feedback

Although providing individual feedback for senior leaders in a company has become a common practice, the practice of providing feedback for individual directors continues to lag, with only approximately half of public company boards adopting this process, according to EY. Part of the hesitancy may be the concern over navigating the potential dynamics, yet ironically, delays are more likely to exacerbate any potential problems, and early conversations can actually be both productive and energizing. The next article walks through some of the aspects to consider when embarking on this process.

Deborah Rubin

Senior Partner, Practice Leader Co-Head, Board & CEO Services

In mastering a sport, navigating a new role or skill, or even fighting to stay at the top of your game, feedback is a critical element that allows you to adjust your behaviors to help meet the desired goals. Some feedback is more straightforward than others, and some messages are more difficult to deliver or to hear. However, without this feedback, you may not realize what needs to be altered or even that the landscape has changed. What could be minor course corrections if identified early become more challenging gaps requiring increasingly difficult conversations if left unchecked. This dynamic plays out in many boardrooms.

We conducted a survey in collaboration with the NYSE, with 620 directors responding. Nine out of 10 directors noted that they would value receiving feedback on their performance. However, only 39% of their boards provided it. Also, although 99% of directors indicated that they would want to know if their colleagues thought it was time for them to retire, a third of the directors acknowledged that there were other directors on their boards who needed to be replaced. Boards of directors are generally composed of experienced leaders who understand the power of feedback in their organizations. Given this, why then is there such a gap?

One hurdle boards encounter in providing candid individual director feedback stems from the understandable desire to maintain collegiality and respect, along with the corresponding fear of offending accomplished peers. Starting difficult conversations requires fortitude and finesse. Ironically, initiating feedback early and providing it regularly can minimize both the risks and the challenges of these conversations. Feedback becomes a best practice that contributes to building and maintaining a great board versus a solution to address a problem director.

There are additional reasons that underscore the need for regular individual director feedback. Industries and organizations are continuously evolving at increasingly rapid rates. Given the challenges many companies face in navigating the changing landscape, leveraging the most from board members becomes even more important. Individual feedback helps board members more quickly add value when they join and help them remain relevant across their tenure. It also helps boards stay nimble and provide lift to the organization in addition to good governance. Additionally, feedback helps engage and retain talented directors who seek to provide value and want to know how to maximize their contribution. Unaddressed issues that prevent directors from delivering the most value in their

> Starting difficult conversations requires fortitude and finesse. Ironically, initiating feedback early and providing it regularly can minimize both the risks and the challenges of these conversations.

roles represent potential distractions and wisdom leakage that companies can ill afford.

Here are tips for getting started and deriving the most from the individual director feedback process:

Include individual director feedback in the annual board evaluation process.
Don't wait until there is a problem to address. Although directors' feedback for their peers is still worth gathering and delivering at any time, waiting until there is a specific agenda to address creates additional complexity, distractions, and risk.

Use an experienced external third party to get started.
If individual director feedback is not yet an established annual process, leverage external experts to interview directors to gather information, summarize the themes, and deliver the individual feedback. This helps establish a sense of objectivity and maximize the candor of the feedback, as well as set a foundation for the next round.

Alternate with a process led by the independent chair or lead director.
Just as it is a good idea to alternate an internal board evaluation process with one involving an external group, it makes sense for the independent chair or lead director to conduct the director feedback process for a year or two, then switch back to an external third party. Changing up the approach can help ensure the feedback does not become rote and that all issues are addressed.

Allow directors the opportunity to change.
This is difficult to do if the feedback has been so delayed that there is no room to maneuver and the most obvious solution is an exit strategy. However, assuming the director can still provide value to the board, organization, and shareholders, it will be important to allow them the opportunity to demonstrate a shift. Provide positive feedback to acknowledge and encourage new behaviors when they are demonstrated.

If boards embed the assumption that all directors will need to evolve and adapt during their time as members, individual director feedback becomes an important and valued resource. Some conversations will still be more difficult than others, but issues are likely to be surfaced earlier, and these conversations will involve less wear and tear and considerably less risk. Directors will also have a clearer view of how they can leverage their experience, skills, and style to maximize the value they bring to their roles, which increases the performance of the board as a whole.

"Individual feedback helps board members to more quickly add value when they join and to help them remain relevant across their tenure. It also helps boards to stay nimble and provide 'lift' to the organization in addition to good governance."

New Thinking on Board Evaluations: Give Directors Feedforward

Adding an additional twist to the ideas in the previous article, the following focuses on the concept of looking forward, not backward, in providing feedback for directors. This is a nuanced but important point and can influence both the tone and the perceived relevance of the process. Given where the company is heading, how can the individual director deliver maximum impact in the future?

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Since 2009, the NYSE has required the boards of listed companies to conduct annual board-performance evaluations. The corporate governance codes in Europe all stipulate that annual board evaluations be conducted. And in the UK, the prescription is to use an outside facilitator for that process at least every third year.

In the first few years of the NYSE requirement, many boards responded to the mandate with a rather cursory check-the-box process that was motivated more by the compliance imperative than the desire to improve the board's effectiveness. Often, it involved simply distributing a brief survey to all board members. The results were tabulated, and the box was checked.

Best practices in governance today require a much more rigorous approach. In addition to a thorough evaluation of full board and committee effectiveness, individual director feedback should be a component of a robust board assessment. However, studies indicate that only slightly more than half of boards actually delivered peer feedback, and about one-third of the boards that did reported that those reviews were ineffective.

However, most directors who serve on boards are highly responsible, conscientious business leaders who genuinely want to contribute value and would want to know if they are not performing as expected. In fact, 90% of the 625 directors who responded to a joint RHR/NYSE Governance Services survey indicated that they would like feedback about their performance as a director. So the question is, how can important information be delivered to directors in a constructive manner?

One answer is *feedforward*, *not feedback*. This distinction is more than semantic. Considering that the overarching intention of board and director evaluations is to continuously enhance contributions *in the future*, a focus on what can be done differently going forward to maximize value is much more critical than past performance. Although referencing former behavior may be helpful to highlight themes, the majority of boards and directors will benefit most from candid suggestions about how they can improve their contributions moving forward. Drawing on RHR's decades of experience in this realm, here are a few recommendations for providing feedforward.

1. Be clear and explicit about the expected value proposition for the board and each director.

Our experience tells us that directors come into their board service with a variety of implicit assumptions about how they think they should contribute. Some

Although referencing former behavior may be helpful to highlight themes, the majority of boards and directors will benefit most from candid suggestions about how they can improve their contributions in the future moving forward.

directors, motivated by the desire to be helpful, can cross the line from governance oversight into management. Others, wanting to provide a rigorous check on management, can adopt an adversarial posture. The board chair and/or lead director need to be explicit about the expected value proposition of the full board and of each director in the initial selection and onboarding process, as well as in director evaluations.

2. Set up the board and director evaluations with a future orientation. Whether the evaluations are conducted internally or via an outside facilitator, the board survey and interviews with directors (the best-practice combination) should focus on how the board, committees, and individual directors can function even more effectively in the future rather than how they have functioned in the past. This is especially important in light of the fact that the aforementioned RHR/NYSE study indicated that organizations need different things from their boards and directors as the operating landscape and company strategy evolve. Evaluations should focus on what the governance needs of the organization will be in the coming year(s) and how directors can contribute in the future context. Also, keep in mind that the best input is actionable, and any changing behavioral expectations should be clearly defined.

3. Supplement the required annual evaluation with ongoing input from the board chair or lead director. An annual evaluation is an effective way for a board to gauge how it is functioning and how it can improve its effectiveness going forward. In addition, regular and immediate input provides the best opportunity for behavior reinforcement or modification. Board chairs and lead directors should be proactive in giving feedback and suggestions for improvement to each director in an ongoing fashion throughout the year. This is a great way to follow up on recommendations from the annual evaluation process and, in many cases, may involve simply calling out what a director is doing well that adds value. In other cases, individual directors may benefit from timely course corrections about how they conduct themselves and how they can contribute more effectively in the future. This aspect of the role of chair and lead director is critically important and takes a high level of interpersonal skill.

Taken together, these three suggestions can lead to an effective feedforward approach to board and director evaluations that will result in raising the contributions of boards to the organizations they govern. ■

A similar piece was published in *The Corporate Board magazine.*

Building a World-Class Board: Best Practices in Selection and Onboarding

Selecting new board directors is a high-stakes, public endeavor

New board members bring fresh perspectives, expertise, and potentially greater diversity to a board and represent another key aspect of ongoing board renewal. The following article focuses on how to effectively select directors and maximize their engagement and impact.

Julie Wolf

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Given the need for a board to work together effectively as a team, a rushed decision or mistake could mean years of opportunity lost—or worse.

Furthermore, membership on a board is a highly demanding role. The depth and breadth of materials to analyze, the critical thinking required, and the emotional and interpersonal demands require a unique profile; this is easily underestimated when boards feel pressure to bring in new expertise.

In the past, new board candidates were often sourced from the networks of existing board members. Candidates were known quantities, thereby reducing risk to a board climate of trust, candor, and alignment. These trends, however, have pushed boards to consider new best practices: heightened regulatory scrutiny causing boards to seek more firepower, recruiting unfamiliar candidates who bring specific content knowledge (e.g., complex products and distribution strategies, investment expertise, and audit and regulatory expertise), and the recognition that greater diversity can lead to better results.

Because of one too many selection errors and/or an awareness that onboarding could be done more effectively, boards are increasingly upping their diligence around board member selection and making improvements to their onboarding practices. They are adopting disciplines that ensure exceptional fit—on both the “hard” and “soft” capabilities—and a planned onboarding process that accelerates new member contributions to the work of the board and helps preserve a healthy board dynamic. This paper, based on our experiences with boards, addresses these best practices with this unique type of board member onboarding.

Before the Selection

Strong nominating and governance committees avail themselves of selection and onboarding disciplines that ensure a board populated with thoughtful, diligent members who bring relevant technical capabilities. Increasingly, more sophisticated boards are taking a page from talent-management practices in corporate America and using the services of third-party assessment providers to reduce the risk of error in the selection process. A deft third-party assessment provider adds to the search committee’s understanding and provides an objective picture of the intellectual, interpersonal, and emotional attributes of the candidates and their fit to the board norms and dynamic. The selection is better informed, particularly in regard to the human risks that are often easily obscured in a résumé and in the course of candidate interviews.

In addition to providing the committee with an objective view of candidate fit, the process also:

- Accelerates the search firm’s sourcing by explicitly incorporating board-specific behavioral requirements into the “position spec,” which narrows the candidate funnel and saves the selection committee time.
- Provides a check and balance on the search firm’s presentation of apparently strong candidates.

> Achieving a shared, baseline body of board-specific knowledge is critical to the early success of new directors.

- Presents the board in the best possible light to candidates by demonstrating diligence in selecting directors and maintaining best-in-class board effectiveness.

- Creates a personal roadmap for onboarding: the new board member benefits from understanding at the outset where they may want to subtly adjust behaviors to put their best foot forward in order to quickly adapt to the norms of the board and to accelerate impact in the boardroom.

Onboarding New Members

After months of diligent effort and time spent by the search committee and the full board, a new director is selected and welcomed to the board. Then what? Creating and executing an onboarding plan will make the difference in helping a board member avoid missteps and will help them quickly achieve their best contribution.

Orientation to the Business

Qualified board members will likely bring some investment-industry perspective, but the depth and relevance of knowledge varies widely. Achieving a shared, baseline body of board-specific knowledge is critical to the early success of new directors. New board members will benefit from dedicating time and having a well-thought-out approach to knowledge acquisition. Among the most successful methods is having new board members spend a day or two onsite with a mentor, undergoing an orientation where specific content areas are presented verbally, discussed with management, and preserved in an orientation manual.

These meetings typically occur in the months prior to the first board meeting and are coordinated and led by the chairperson.

Topics might include:

- How the board operates
- Role and expectations of the SEC
- Fiduciary duty and board responsibilities
- Best practices in board oversight
- Company-specific matters (e.g., structure, product details, and fees information)

Thorough presentation and discussion of these topics are extremely valuable to the board members we interviewed. They noted that the timing of these meetings—six to eight weeks in advance of the first board meeting—is important for allowing the material to be absorbed and consolidated.

Furthermore, some indicated that they would accept the opportunity to repeat the business orientation component of onboarding a year or two into their new roles, once a deeper context has been established. Given the accelerating complexity

of technology products and risks in every industry, ongoing board education relative to (a) cybersecurity, (b) the changing regulatory landscape, (c) accounting practices, and (d) ensuring market relevance and competitiveness are at the top of most boards' agendas.

Finally, the business orientation process begins important relationship building between new board members and their peers. The new directors begin to understand the integrity, commitment, and priorities of the people with whom they will work. Subsequent to the foundation established in the business onboarding session(s), the new board members could also benefit from arranging one-on-one follow-up meetings with members of the team to deep-dive into content and to further develop an understanding of management's thinking, perspectives, etc. These intentional knowledge- and relationship-building activities establish a path for a respectful and collaborative, yet well-defined, working relationship, as well as facilitate the ongoing evolution of that relationship over time.

Integration into the Board

Taking a thoughtful approach to integrating new directors into the existing group norms, dynamics, and practices of the board differentiates truly exceptional boards. Few boards have a well-planned discipline for new members around the first months and year with the board. Best practices that we have observed and that have been lauded by board members include:

1. Provide feedback from the interview and assessment process.

When third parties are used to provide selection assessment input, leverage the experience fully by ensuring that the new board member benefits from assessment feedback. Experienced consultants are skilled at presenting the feedback in a respectful, inviting, and developmental manner; the feedback session is a positive experience, and the new director walks away with the sense that they've been set up to succeed by virtue of knowing more about the board and their own fit/gaps prior to the first board meeting. The candidate benefits from having a knowledgeable and confidential partner whose only agenda is the success of the candidate and the board. The consultant can invite and address questions that the new board member may not voice to others and can help them plan intentional steps to mitigate any integration risks and accelerate a productive board experience.

2. Establish an explicit, semiformal mentoring relationship.

The difference between an informal, in-name-only mentoring effort and one in which the mentor role and process are explicit is profound. By adding only slightly more structure, new board members will have a trusted partner and forum for discussion and learning in a nonjudgmental and semiprivate way, where ideas and reactions can be tested and where informal learning is accelerated.

Critical elements of a productive mentoring relationship include:

a. Mentor is formally introduced, and mentor and mentee agree on expectations, cadence, and confidentiality. There is no guessing about "Who is my mentor?"

b. Modest content structure is established to ensure ease of conversation and to invite the mentee to ask questions. For example, the mentor might say, "This works well if you track questions in the course of meeting preparation and during meetings; then we'll work through your questions when we are together," or, "Over the course of the year, there is a set of topics people typically find useful to cover, including (a) board history and current dynamics, (b) input on product and service offerings, (c) norms for time investment and expectations of board discussion, and (d) clarity on the board's philosophy."

c. Front-load contact, including dinner prior to the first board meeting, calls/meetings to debrief each board meeting, explicitly finding time to meet when in each other's cities, etc. Investing the effort to establish openness and candor in the first six months creates a more productive relationship.

d. Consider giving feedback as a standing agenda item for meeting debriefs. Have an established norm of the mentor always providing good and constructive feedback: "Your most useful contributions in this meeting were X because of Y. One piece of advice is to do Z." Establishing this norm at the outset permits the mentor to delve into sometimes difficult—but often the most important—topics of discussion.

3. Explicitly address how to prioritize, pace, and scope the volume of issues and materials addressed.
The most common concern of new board members is how to learn, manage, pace, and bring value to the vast and detailed content of board matters. Pace committee membership and leadership. Many boards benefit from new board members serving as consultants for up to a year. This allows new members to be in a learning role, which resolves any pressure to actively contribute to board discussions or to serve as committee leaders. The volume of learning—specific content, management interactions, and committee norms—is typically substantial. Explicitly defining the first nine to 12 months as the learning-and-observing phase allows new board members to learn without the pressure (or distraction) of contributing expertise when they lack adequate context. This approach has proven to be a relief both to new members and to boards and committees.

4. Intentionally build board relationships. Productive boards know that individual, specialized knowledge and capable leadership are important but not sufficient for achieving the special sauce that some boards enjoy. The truly deft and productive discussions and wise and efficient decision-making that happen with great boards are also due to the trust and relationships that have been intentionally prioritized and established. Thus, new board members will benefit from (a) having an expectation and invitation to build relationships and (b) taking on the task to ensure this happens. Small behaviors of new directors, such as arriving early and staying late (versus dashing to a waiting airplane) and making a point of meeting individually with each colleague in the first six months are efforts that will produce individual and group dividends.

5. Make director learning and continuous board improvement a priority.
Lastly, several boards indicated that establishing a broader board norm of ongoing learning and development creates a climate that fosters openness and productive onboarding for new directors. Examples of such behaviors that create a developmental climate include:

a. Intentionally define, document, and create alignment on the board's values and philosophy vis-à-vis ongoing learning and development. Share and discuss these materials with new board members and examine them over time. Demonstrate a discipline of reflection, learning, and adaptation.

b. Periodically engage in deeper board evaluation—for example, using a third party to examine committee and leadership effectiveness, feedback to the board as a whole, peer feedback to each board member, and feedback from the chair. Ensure a robust board discipline of assessing the external landscape and implications for the board. Annually review matters of risk and opportunity to ensure the board agenda, board education, and succession planning are relevant and adaptive.

c. Demonstrate a commitment to ongoing education. Regularly invite ven-

Director's perspective best practices we see regarding integration into the board

dors and outside experts to present and discuss relevant content. Set board expectations on—and facilitate continuous education outside of—board meetings (e.g., new SEC reporting requirements).

Taken together or in component parts, these onboarding disciplines have been shown to improve board effectiveness. In a climate of increasing complexity and demands on boards of both public and private companies, and increasing board scrutiny, adopting such disciplines is an investment many see as worthwhile and well-timed. ■

Productive boards know that individual, specialized knowledge and capable leadership are important but not sufficient for achieving the "special sauce" that some boards enjoy.

What I Wish I Had Known Then… as a New Board Director

As directors gain experience, their first-time assumptions and hard-learned lessons become things of the past. However, in the final article for this chapter, we asked seasoned board members to pass on some of their hard-won wisdom to those new to the role. Given how many directors are currently joining boards for the first time, we thought it relevant to include these insights.

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When I was a teenager, my grandfather would frequently glance at me, let out a theatrical sigh, and exclaim, "If I knew then what I know now." My wry, observant grandmother would inevitably reply, "You would not have survived to adulthood." Truth be told, at some point, virtually everyone wishes they could impart some hard-won wisdom to an earlier self and avoid the unexpected land mines ahead. Assuming that mortality is not an actual risk of additional wisdom, we asked a diverse group of CEOs and seasoned board members what they wish they had known when they took their first board position. Their insights converged around five core areas:

1. Realize the time required to do this well.
Although the need to set aside the time to prep for and attend the scheduled meetings is obvious, the investment required for other aspects may come as a surprise. It is easy to underestimate the amount of time it takes to become a knowledgeable and effective board member. "It is much more than attending the meetings, etc. It is learning about the industry, the company, the lines of business, and so on. It is very time-consuming, but if you don't do the above, it is very difficult to add value."

2. Dig into the financial information.
As one director notes: "What I wish I had known when I took my first board position was how important it was to spend lots of time on financial information. It is really easy to take the financial information that you are given and assume that that is the whole picture, when in fact what you are receiving is some person's or some group's definition of what the whole picture is—and that they often will subconsciously or consciously not include all the relevant information. There are natural biases for financial reporters, and it is a challenge when you are first getting on the board to know what questions need to be asked to ferret out that bias. In every board that I have served on, I have faced this issue."

3. Focus on the company's leadership.
How long has the CEO been there, and when are they planning on retiring? Unfortunately, CEO retirement can catch boards by surprise, particularly when they are performing well. This sudden plot twist is particularly disconcerting for a new board member. Even when no apparent departures are looming, directors have learned the hard way to recognize the "importance of ensuring that the company has the best-possible leadership and to not compromise with executives who can simply 'do the job.'"

4. Recognize the complexity of the relationships.
In addition to the sheer time commitment necessary to build the relationships, board dynamics can be more complex than expected. One board member had been surprised by "the importance of the relationships and work on an ongoing basis and between board meetings, in addition to during them." Another board member responded, "I really didn't have a good appreciation for the subtle nuances that can occur within a small group of people. I came from a background where everything was on the table in full sight, with open transparency and candor. I quickly learned that much of the board world is not ex-

> Although the need to set aside the time to prep for and attend the scheduled meetings is obvious, the investment required for other aspects may come as a surprise.

actly like that: one has to learn to read the tea leaves and assess the efficacy of interaction—both with management and within the board." Finally, avoiding becoming entangled in subgroups can be challenging. "All boards have built-in relationships… [W]here board members' positions start are usually from the relationships. In my experience, the more I am able to stay out of the cliques, the better the board member I am."

5. Know the regulatory requirements. Having only a passing knowledge of the SEC regulatory requirements can create challenges for a new director on a public board. "In my first board position, I wish I had known more of the scope and depth of SEC regulations and requirements. I knew generally, but not the nuances of many requirements of reporting and the scope of information required. I did not fully appreciate the time, effort, and scrutiny needed by the board in assuring full compliance."

The average tenure of directors on boards is decreasing, so new director appointments are more frequent these days. In fact, the average tenure for directors of U.S. companies went from 10.3 years in 2012 to 8.6 years in 2014, shrinking each year. As the number of new boardroom appointments continues to increase, we appreciate the willingness of the experienced directors to share their learnings with first-time directors and hope their hard-earned wisdom benefits the new directors. ■

"I came from a background where everything was on the table in full sight, with open transparency and candor. I quickly learned that much of the board world is not exactly like that: one has to learn to read the tea leaves and assess the efficacy of interaction—both with management and within the board."

CHAPTER FIVE

CEO Succession

Introduction

Two of a board's most important responsibilities are to ensure that the right CEO is in place to lead the company (whether this person came from inside or outside the organization) and that there is an effective process for developing internal successors to potentially succeed them. Astute board leaders recognize this as an ongoing discipline maintained over the life span of a company and not an isolated event sparked by a near-term departure. RHR has written a book, *Inside CEO Succession*, that highlights the key elements and steps. Rather than duplicate this comprehensive resource, this final chapter was designed to provide a few observations and encourage further exploration on the topic.

Savvy Boards and CEOs Put Succession on Their New Year's To-Do List

The time to think about succession candidates is well before you need them. This article highlights the board's role in ensuring that there is a robust pipeline of internal candidates for mission-critical positions, including the CEO role.

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Do you have at least two viable succession candidates for each of the mission-critical roles in your organization? If you don't, now is the time to start working on that. The research we at RHR did in support of our book *Inside CEO Succession* indicated that having only one—or worse, no—internal candidates puts your business at significant risk. Given that it takes many years of preparation to groom a fully prepared C-suite executive and that the cost of having to go outside to find a CEO is nearly twice as expensive as promoting from within, an investment in developing your high-potential talent for mission-critical roles is essential.

What are the steps? Start by developing a customized version of The Winning Formula profile* that outlines the leadership capabilities that will be required given your company's strategy and future direction. This success profile should identify the leadership behaviors relevant to each dimension of the job. For a CEO position, these capabilities should include strategy development and execution, investor and financial acumen, management of key external stakeholders (including big customers and in some instances regulators), partnership with the board, and leadership of the senior team and employee workforce. Each mission-critical role has a specific set of leadership requirements. After gauging the role mandates, potential internal candidates for each of these roles need to be assessed against The Winning Formula profile to determine where the gaps are and what development is needed to fill those gaps. Lastly, those gaps need to be closed through the diligent execution of a development plan with periodic progress checks.

> As part of this evergreen approach, the CEO profile should be updated at least yearly to ensure it still represents the current view of the future and the leadership needs.

If you serve on the board of directors or lead a company as the CEO, make sure this process is in place in your organization so you don't have to put "viable succession candidates" on your holiday wish list at the end of the year.

*Developed by RHR International, The Winning Formula profile is the set of leadership behaviors and experiences required for senior team members to deliver on their roles and execute on the company strategy.

CEO Succession: The Hidden Costs of Shortcuts

CEO succession is not a complicated process on paper, yet in action it is filled with nuance and complexity. As this final article notes, the more proactive, intentional, and transparent the approach, the smoother the actual journey.

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Shortcuts can be so appealing. They promise an earlier arrival, reduced effort, or less expenditure for a similar outcome. We have all taken them at one point or another. And sometimes they seem to live up to their appeal. The problem is that it is difficult to foresee the risks of these forays until they suddenly emerge. Such is the case with CEO succession planning. At RHR, we strongly believe that a critical step in the CEO succession process is to ensure alignment among the board members regarding the company's strategy and what this future path will require in terms of the specific experience and talents in the next CEO. Ideally this is done in partnership with the current CEO, but it is ultimately the board's responsibility. This process requires time, candor, and the willingness to surface conflicting agendas, perspectives, and risk tolerances. Not all boards take this step, and not all their successions go awry, but sometimes they do.

Benefits of Creating a CEO Leadership Profile

Focusing on the future reduces the appeal of a clone. A successful current CEO can appear to be a life-size blueprint for what is needed in the successor. However, their accomplishments have likely propelled the company into a new landscape of opportunities and challenges that will require a different constellation of skills in the future. On the flip side, a struggling CEO probably lacks experience or abilities in some key areas but likely possesses skills in other areas that may need to be replicated. In such cases, the board must take care not to swing the pendulum too far in the other direction.

It avoids polarization among board members. When boards skip the step of creating a touchstone and move into identifying and evaluating candidates, directors can polarize around the individuals they are backing. And when starting without a strategy to guide the prioritization of leadership requirements, individual directors can also stack the deck by listing "required" attributes that happen to make their candidate stand out. Discussions become heated marketing campaigns and are more political than objective or constructive. Directors can have difficulty articulating why they prefer one candidate over another or may oppose an internal candidate based on observations made years before that may or may not be currently valid.

It enables the board to assess what matters. A specific CEO profile can serve as a powerful tool to decode the massive amount of candidate data that will likely be available and home in on what is really relevant for each CEO candidate (and the implications for the company). It can help directors avoid becoming distracted by impressive but less relevant achievements on a résumé; highlight gaps in experience, skills, or leadership style; and indicate where more information is needed.

It helps the board mitigate the risks. No one is perfect, and no candidate is going to be a perfect match on all the criteria. When a board has had the vital discussions regarding where the company is headed and the qualities and qualifications the next leader will need to help realize that future, the foundation has been set to discuss what gaps can be addressed through leveraging the senior team or the board or through ongoing development. This will also help identify which gaps represent too great a risk or are realistically not amenable to change.

It helps add discipline and transparency to the succession process. This profile enables candid conversations with internal talent, highlighting what will be needed and where they may need to grow and develop. An objective and transparent approach helps increase the odds that those involved view the process as fair and may reduce the likelihood of departures by others on the senior team who are not eventually selected—or at least delay the loss of talented executives who recognize that the experiences and development they are receiving will increase their general viability as CEO candidates.

CEO succession as a best practice is a continual process linked to the organization's overall succession planning for senior roles. As part of this evergreen approach, the CEO profile should be updated at least yearly to ensure it still represents the current view of the future and the leadership needs. Taking the time to ensure the board is aligned on the company's strategy and to the specific leadership skills and experience that will help realize that future is not always an obvious key step in CEO succession.

However, as more directors experience the benefits, they will likely agree that avoiding this is *not* a shortcut worth taking. ■

Conclusion

Although the landscape will continue to change, great boards will continue to bring good governance, discipline, wisdom, experience, networks, curiosity, and disruptive thinking to their organizations, along with the ability to evolve. We have been privileged to work with wise, dedicated, and talented directors and boards, to help them become even more effective and relevant. In turn, we continue to learn. Thank you for joining us in this journey.

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